PAST

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An Ancient Land. An Unlimited Future.

ANNUAL REPORT 2005

CENTURION
ENERGY INTERNATIONAL INC.

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this Annual Report including statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this Annual Report includes, but is not limited to: statements relating to "reserves" and "resources" as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future; expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends in the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; the maintenance of existing government, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us and other factors, many of which are beyond our control. The foregoing factors are not exhaustive and are further discussed in the Annual Information Form of Centurion Energy International Inc. filed on SEDAR at www.sedar.com.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Except as required by law, Centurion Energy International Inc. disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

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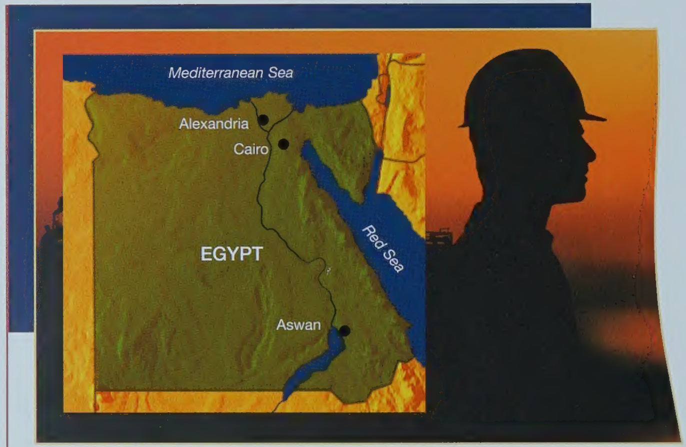
Centurion's Annual General Meeting is scheduled for May 18, 2006, 3:00 p.m. at the Calgary Petroleum Club, McMurray Room, at 319-5 Avenue S.W., Calgary, Alberta.

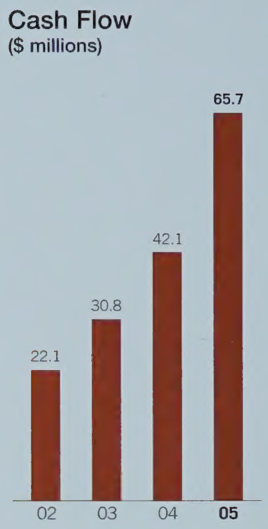
CENTURION
ENERGY INTERNATIONAL INC.

2005 Milestones

Egypt Drilling Program

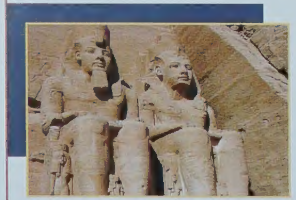
Centurion Energy International Inc. ("Centurion") was active throughout 2005 at all of its current producing areas, drilling a total of 29 (19.9 net) wells, including 19 development wells. Development continued at the El Wastani and South El Manzala fields, while three discoveries were made in the West Gharib Concession. Overall success was high, including 13 net new natural gas wells.





Production

A successful drilling campaign enabled Centurion to increase its production rate from 21,150 boe per day at year-end 2004 to 38,000 boe per day at year-end 2005. This is a year-over-year increase of 80 percent. Growing production enabled Centurion to continue generating strong growth in operating cash flow.



Abu Simbel Temple, 13th century BC, Egypt.

Egypt Prospects

Centurion continued exploratory work at several newer properties. A 15-well drilling program is set to begin in 2006 due to the results of the acquisition of an additional 1,400 square kilometres of 3-D seismic at West El Manzala. Geological mapping and 2-D seismic reprocessing at Kom Ombo, Block 2 Ganope created the foundation for Centurion's exploration drilling program of this large concession. Centurion began a 2-D seismic program on this concession (100 percent working interest).

Offshore West Africa Play

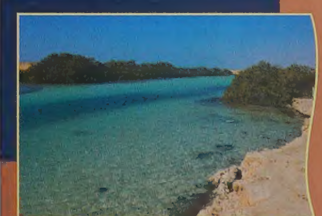
Centurion is participating at 10 percent (7.5 percent net) in a new deep-water play in approximately 2,000 metres of water in a previously unexplored, joint development zone between Sao Tome/Principe and Nigeria. Several large prospects have been identified on the block through seismic. Drilling is planned to commence in mid-2007.

Financial and Operating Highlights

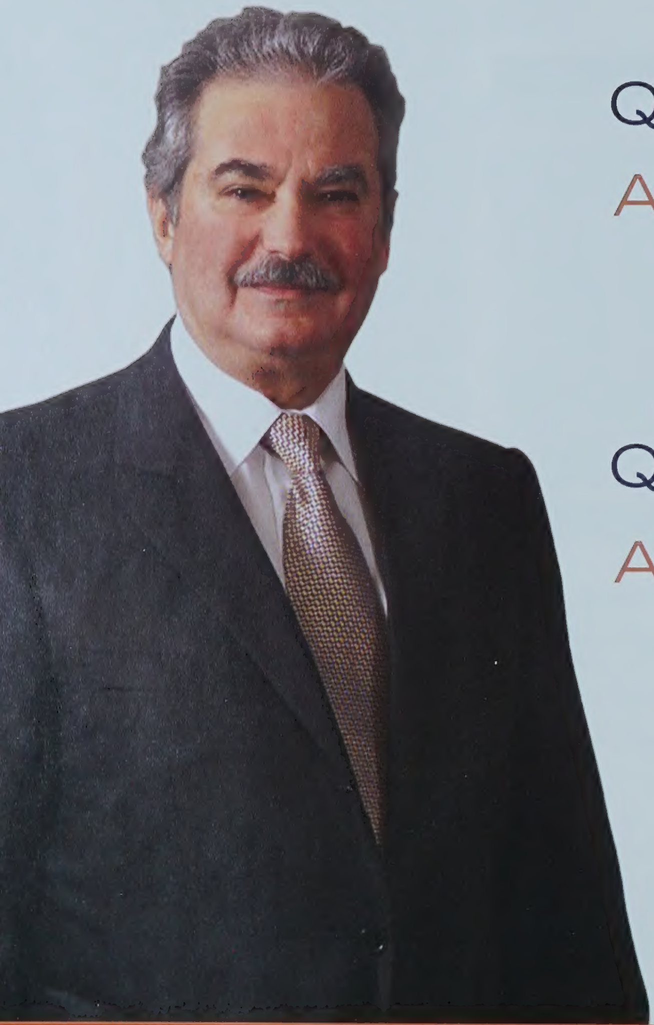
($000s except per share amounts)	2005	2004	2003
Financial			
Cash flow – continuing operations	**59,244**	31,029	10,732
Cash flow – discontinued operations	**6,430**	11,036	20,063
Cash flow – corporate	**65,674**	42,065	30,795
Basic per share – continuing operations	**$ 0.67**	$ 0.40	$ 0.17
Diluted per share – continuing operations	**$ 0.64**	$ 0.38	$ 0.16
Basic per share – corporate	**$ 0.75**	$ 0.54	$ 0.48
Diluted per share – corporate	**$ 0.71**	$ 0.51	$ 0.46
Earnings – continuing operations	**6,653**	10,505	536
Earnings – discontinued operations	**2,474**	2,895	10,091
Earnings – corporate	**9,127**	13,400	10,627
Basic per share – continuing operations	**$ 0.08**	$ 0.13	$ 0.01
Diluted per share – continuing operations	**$ 0.07**	$ 0.13	$ 0.01
Basic per share – corporate	**$ 0.10**	$ 0.17	$ 0.17
Diluted per share – corporate	**$ 0.10**	$ 0.16	$ 0.16
Net revenue – continuing operations	**108,626**	54,796	24,425
Net revenue – corporate total	**117,605**	72,693	52,104
Total assets	**253,753**	180,657	148,744
Total long-term financial liabilities	**18,865**	34,735	33,677
Production			
Average daily rate (boe per day)			
Continuing operations	**22,250**	9,854	4,185
Discontinued operations	**613**	1,621	2,417
Corporate	**22,863**	11,475	6,602
Annual production (mboe)			
Continuing operations	**8,121**	3,605	1,528
Discontinued operations	**224**	594	882
Corporate total	**8,345**	4,199	2,410
Exit production rate (boe per day)	**38,000**	21,150	10,500
Sales Price Realizations (Continuing Operations)			
Natural gas ($US per mcf)	**2.76**	2.70	2.74
Crude oil ($US per bbl)	**35.03**	28.50	23.46
Condensate ($US per boe)	**53.87**	38.41	27.77

Note: Natural gas has been converted into barrels of oil equivalent (boe) at 6:1. Boe disclosed in this table may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mscf:1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Average Daily Production
(boe per day)



Above: Mangrove trees at the Ras Mohammed National Park, Egypt



Q and A with the President

Q

How did Centurion achieve such significant production growth in 2005, exiting at 38,000 boe per day?

A

Our exploration success rate has been extremely high. The 3-D seismic we have acquired covering our northern Egypt projects has been an important tool to unlock the key to the geology of the area. We have had an aggressive drilling program with a 94 percent success rate. We were successful in the El Wastani area, nine wells in 2005, adding production of 83 million cubic feet per day, plus more than 4,000 barrels per day of liquids. Our South El Manzala program was also successful, although the wells have not performed as well as anticipated.

Q

In 2005 nearly all the talk in the markets was about high oil prices. What are your arguments for being focused on natural gas?

A

It's because there are opportunities to explore for, develop and bring to market new natural gas volumes in the areas we've focused on. It just happens that our Nile Delta gas play is a world-class play although rich with liquids. In some areas of the world gas prices, on an equivalent basis, are higher than oil prices. While our current production is sold at a lower price, it is very profitable because of our low cost structure. Our strategy of accessing the LNG market will give us the opportunity to access higher prices.

Said S. Arrata, President and Chief Executive Officer

Q

Egypt has delivered impressive volume growth for Centurion over the past several years. What are the characteristics that make Egypt a good place for Centurion to operate?

A

I think the operating results speak for themselves. The prospectivity, the untapped or under-utilized potential, and the desire of the Egyptian government and business community to develop the country's energy resources are some positive factors.

As proof of Egypt's positive characteristics, let me focus on one aspect: Centurion's financial benchmarks. Our cost structure is extremely low by North American standards. Our F&D costs have averaged $1.79 per boe of new reserves added – barely one-tenth the current average in western Canada. Our operating expenses averaged $2.07 per boe – one-quarter to one-fifth the western Canadian average. Our G&A of $0.33 per boe is also very low by North American standards. These results are due to lower labour costs, to our good base of technical talent and to the high productivity of our successful wells. In 2006, some of these financial benchmarks could be lower.

Q

What was the reason for the sale of the Tunisian properties, how did it affect Centurion's production volumes, and is there anything ongoing in Tunisia?

A

The reason for leaving Tunisia was to enable us to focus our time and financial resources on the areas of best growth potential. These are in Egypt, where we are very active and are growing rapidly. The Tunisian production was mature, about 1,800 boe per day, and was no longer a core area for us. Having explored there for eight years without great success, I can say Tunisia is a technically difficult area. The recent Amira well at the Mellita prospect, where we farmed out the drilling to Petro Canada, was unsuccessful. We have two deep Triassic exploration prospects in Tunisia, Ezzaouia and El Biban. The Ezzaouia prospect is scheduled to be drilled late this year or early 2007. They are both non-operated and we retained the right to participate for 15.7 percent and 36.9 percent working interest respectively.

El Wastani facilities

Q

What is the reserves picture for Centurion?

A

Our reserves base in Egypt is very strong, more than doubling last year's numbers and replacing 2005 production by a factor of 6.5 times.

This is very positive for an exploration company, where booked reserves often lag by several years. Because we are a Canadian-headquartered company, we use the very stringent Canadian N.I. 51-101 reserve evaluation and reporting standards.

Q

Centurion's Net Backs seem low compared to North American standards. Why is this? Is it due to the fiscal regime in Egypt?

A

The simple fact that the pricing in two market areas is not equivalent. Centurion is a volume play. We discover 50 bcf wells that produce individually 10-15 mmcf per day. This compares to an average well in North America that might find 0.6 to 1 bcf and produce at less than 1 mmscf per day. The domestic natural gas price in Egypt has not been elevated to a world price. This is normal by world standards, where you will find a variety of prices. In fact, Egypt is better than many other places, where large natural gas resources are stranded altogether. Elsewhere prices are often around $0.75 to $1.00 per mcf. In Egypt we average about CAD$3.30 per mcf, which is a very competitive price for this part of the world.

At the same time, we are looking for ways to maximize our cash flow by gaining exposure to European and North American markets. We have completed negotiations with liquid natural gas (LNG) players to use our natural gas as feedstock for them, and obtain the higher export prices. Egypt is not preventing exports – quite the opposite, having embarked on an aggressive natural gas export program. Three LNG liquefaction plants are operating and four more plants are planned. We hope to get a position in one of those plants. Egypt is also constructing a gas pipeline to Turkey, having just signed an agreement to export 1 bcf per day. Based on the total potential gas requirement in Egypt, exports could reach 8-8.5 bcf per day over the next number of years. Centurion is in a very strong position to export into the world market.

In terms of the fiscal regime, the Production Sharing Agreement in Egypt is very competitive, better for producers than many other international areas. But you explore internationally for the higher volumes potential, not for the fiscal regime. We have operated in Egypt for the last eight years, without serious disruptions or accidents. We have been paid consistently, and have been able to repatriate our profits. Our bankers do not impose a premium for country risk. Historically, the most stable oil and gas industry has been in the Middle East.

Corporate Management Team

Seated left to right: Barry Swan, Sr. Vice President and C.F.O.; Said Arrata, President and C.E.O.; Mike Zayat, Vice President, Exploration and Business Development.

Standing left to right: Robert Macaulay, Engineering Manager; Tony Anton, Sr. Vice President and C.O.O.; Elena Tchaikovsky, Business Analyst and Public Relations; Elaine MacDonald, Executive Assistant; Paul McDougall, Treasurer

Q

What is the approved 2006 budget, and how will it be financed?

A

Our budget for this year will be close to the 2005 budget, approximately US$150 million. It will be funded through cash flow and our existing line of credit. Our debt to cash flow ratio will increase, but will remain low, probably no more than 1.25:1, in accordance with our policy of restraining debt.

Q *What were the most important operational achievements in 2005?*

A Our continued drilling success and execution of an aggressive drilling program, which resulted in another large production increase was our major achievement. The drilling of 29 wells, including 19 development wells, to meet our target exit rate was also a key item. We continue to drill in the Nile Delta. I always like to look to the future, and very important in that regard was shooting 3-D seismic in two new concessions, West El Manzala and West El Qantara. These concessions surround our existing development leases of El Wastani and South El Manzala, and we have been extremely pleased by the results of the seismic interpreted so far. There are literally dozens of leads and prospects, amounting to resource potential of several trillion cubic feet of natural gas plus associated liquids.

In the West Gharib Concession we have made significant progress by discovering three fields, and we are beginning to develop the fields through new drilling and well recompletions. In our Kom Ombo concession (Block 2 Ganope) in southern Egypt, where we have a 100 percent working interest, we started a 2-D program in October, and we hope to start drilling the Kom Ombo prospect by late 2006 or early 2007. This is a raw exploration area that's part of the African Rift system and has highly prospective oil plays.

Significant to our longer-term growth potential, and for diversifying from our existing base in Egypt, is our new play in West Africa. In June 2005, we were awarded a 10 percent gross working interest in the 212,000-acre Block 4 of the joint development zone in the deep water area between Sao Tome/Principe and Nigeria.

Q *Where else in the world might you consider taking Centurion, and what steps have you taken to date?*

A Our new deep-water play – water of 2,000 metres – in the joint development zone between Sao Tome/Principe and Nigeria is very exciting. The production sharing agreement was signed on March 14, 2006. This area is part of the Niger Delta deposits, an area of very large resource potential. It was a previously disputed area, remaining undeveloped for this reason. The dispute is now settled, making the area available for exploration and development. Nine blocks were posted in the first round, which was highly competitive. Seismic mapping has revealed several very large prospects. We are anticipating drilling by mid-2007, and the operator will be an experienced deep-water exploration company. We have also been qualified to bid in the next Angola bid round.

Q *Were there important capital-related events or issues in 2005, and what is their significance to shareholders and to your business plans?*

A We raised $37 million at $13.25 per share in January 2005. We also increased our bank line of credit from US$40 million to US$150 million, which is certainly indicative of our financial strength.

El Wastani facilities

Q

What should investors think about this considerable decline in market value?

A

It was not caused by any negative events within Centurion. We had a tremendous year, attaining our main production target and generated strong cash flow. Nor do we think the strength of the Canadian dollar was a major factor. We think it was mainly the market's perceptions. All the Canadian international players were hit in 2005. Perhaps the international plays were a little overheated at the peak levels. There continues to be nervousness in the market because of volatility in oil prices. The market's perception of our limited natural gas pricing in Egypt may have been a factor, and we continue to work to gain exposure to higher prices.

Q

What are the main operational programs now underway for implementation in 2006?

A

Our focus will definitely be on exploring the two new Nile Delta concessions in Egypt. We commenced drilling in February. We have selected 15 locations on these two blocks. We anticipate drilling one exploratory well on the Kom Ombo prospect in southern Egypt. The existing properties will see additional development drilling to maintain their productivity.

On the facilities side, we are going to use a combination of third-party processing and our existing facilities. By late 2006 we should have all our permanent liquids-extraction plants in place, replacing the current temporary facilities. For natural gas production growth we will use third parties for processing.

In West Africa we may acquire some additional 3-D seismic and our activity will be in planning and preparation for this technically complex undertaking, including contracting a deep-water drill ship.

Above: New facilities at El Wastani

Above: Luxor Temple, Upper Egypt

Q ***The conventional wisdom holds that doubling production year-after-year becomes increasingly difficult as a company grows from a junior, through the intermediate stage and into a senior independent. How does Centurion compare to the conventional wisdom?***

A I've been clear to the market that we physically can't keep doubling our production every year forever. But we do foresee a company that is in the range of 100,000 boe per day within two or three years. This production would be entirely out of Egypt, and would not include any major discoveries that might come our way elsewhere. So I think doubling again in two to three years is realistic. We are going to keep building this company organically although we continue to look at startegic acquisitions or merger possibilities.

Q ***What is new with Centurion's team today?***

A We have added quite a few people in 2005 in Egypt and Canada, and I wish to welcome all of them to Centurion. Entering 2006 the Centurion team numbers over 100 people. I would like to thank all of our personnel for their almost super-human efforts in keeping our production growth ongoing. The major oil companies look at our operations and are amazed at what we have accomplished in such a short period of time. I also wish to thank the shareholders and the Board of Directors for their continued support.

Said S. Arrata, P.Eng
President and Chief Executive Officer
March 21, 2006

Exploration and Operations Review

Highlights

- Increased total company production to a record 38,000 boe per day at year-end 2005, doubling the 2004 exit rate for our Egyptian properties
- Increased year-end reserves in Egypt to 97 mmboe, more than doubling the Company's reserve base from year-end 2004 after replacing production
- Acquired 1,400 square kilometres of 3-D seismic on our Nile Delta exploration concessions
- Participated in a record total of 29 (19.9 net) wells, resulting in 13 gas wells (13 net), 7 oil wells (2.1 net), 3 (1.6 net) wells testing at year-end 2005 and 6 (3.16 net) dry wells
- Upgraded development lease facilities to increase combined production capacity from 95 mmscf per day to approximately 300 mmscf per day
- Maintained a zero lost-time rating in our operations
- Awarded a 10 percent interest (7.5 net) in Block 4 of the Nigeria/Sao Tome Joint Development Zone
- Completed 500 square kilometres of 2-D seismic in the Kom Ombo Exploration Concession (Block 2 Ganope)
- Sold producing properties in Tunisia

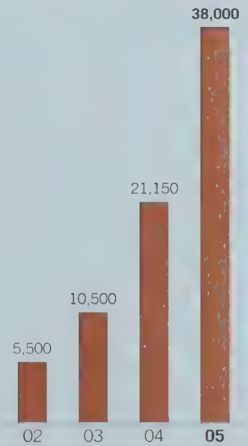
Above: El Wastani facilities

Land Holdings

Property (As at December 31, 2005)	Type of Disposition	Interest %	Gross Acres	Net Acres
Egypt				
South El Manzala	Development Lease	100	16,055	16,055
El Wastani	Development Lease	100	10,053	10,053
El Wastani East	Development Lease	100	2,964	2,964
Hana	Development Lease	30	2,371	711
West Gharib	Concession	30	350,178	105,053
Kom Ombo (Block 2 Ganope)	Concession	100	5,654,727	5,654,727
West El Manzala	Concession	75	476,216	357,162
West El Qantara	Concession	75	319,618	239,714
Egypt Subtotal			**6,832,182**	**6,386,439**
Tunisia				
Mellita	Permit	27.5	845,728	116,288
Sao Tome/Nigeria JDZ Block 4	Licence	7.5	211,657	15,876
Company Total			**7,889,567**	**6,518,603**

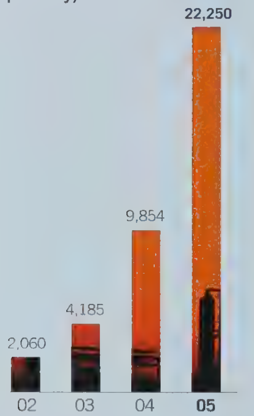

Above: Cairo market

Exit Production
(boe per day)



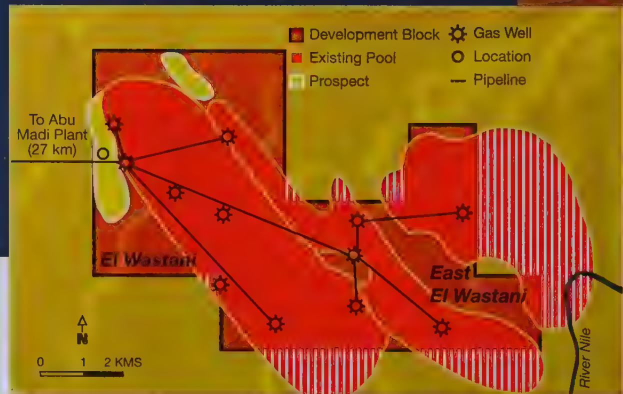
Focus Egypt

Egypt Average Daily Production
(boe per day)



The Company's Egyptian properties continued to be the engine for phenomenal growth in 2005 as shown in the accompanying graph. The average daily production rate in Egypt increased by more than 125 percent over 2004.

Egypt Concessions and Leases



El Wastani Development (100 Percent Working In

Cairo Management Team

Left to right: Raouf Tawfik, Finance Manager; Hany Elsharkawi, General Manager, Egypt; Refaat Zaki, Exploration Manager; Hamdy Abdel Sattar, Operations Manager; Missing – Essam Zaghoul, Vice President Exploitation and Business Development, North Africa

El Manzala Development Leases

El Wastani (EW) and El Wastani East (EWE)

Centurion continued development drilling in the EW/EWE development leases in 2006, adding eight successful gas producers. The wells encountered two to four pay zones and work is underway to optimize development and production from the various pay zones.

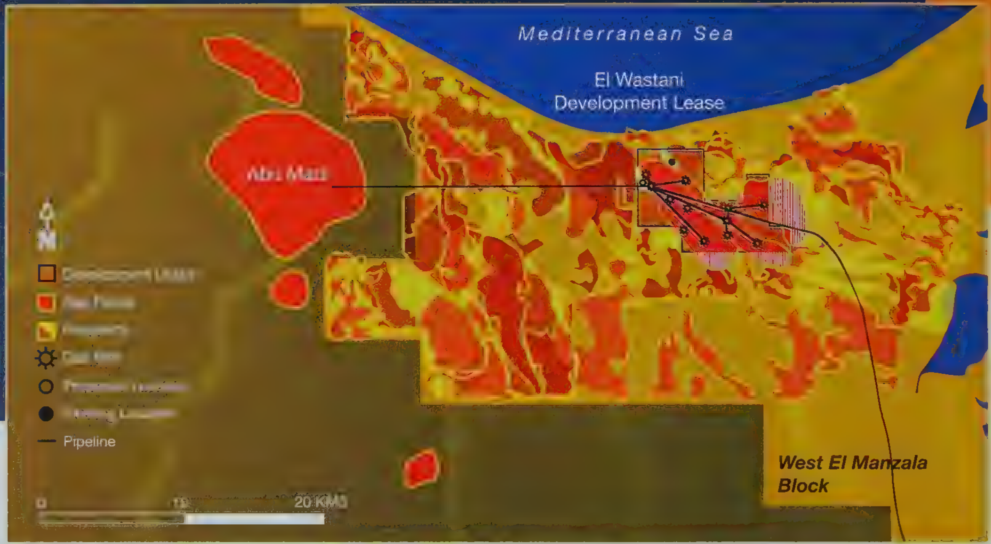
One well, EW-6, produced 45 degree API oil in addition to the gas from the Qawasim formation, opening up a new and exciting play-trend within the boundaries of the lease.

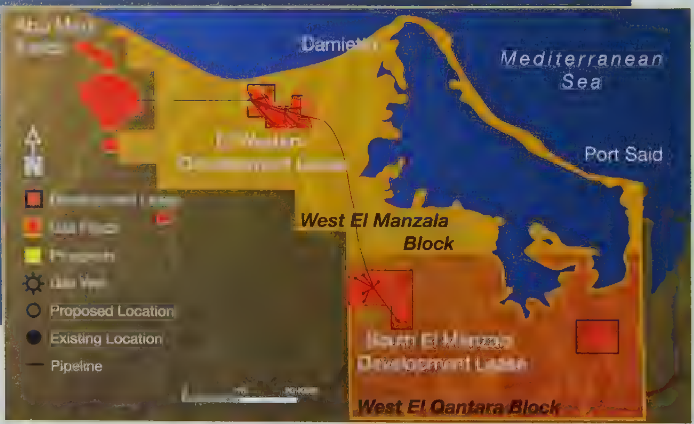
East El Wastani-3 confirmed the Upper Abu Madi accumulation on the East El Wastani production lease. The well is currently producing 15 mmscf per day of gas plus natural gas liquids through the El Wastani production facilities.

Year-end reserves totalled 97 mmboe, an increase of 105 percent from year-end 2004 volumes, after accounting for 2005 production.

Centurion carried out extensive work to expand the field gathering system and facilities in order to accommodate additional gas volumes from new wells. Equipment included additional separation, dehydration and compression equipment. Centurion also completed the first phase of its stand-alone gas plant project, which will route the majority of our gas production through a Joule-Thompson plant. The remaining gas will continue to be processed through the third-party operated Abu Madi plant.

Ongoing work in 2006 will result in the commissioning of a full mechanical refrigeration plant and turbo-expander train, which will enable full recovery and sale of condensates and liquid petroleum gas products.





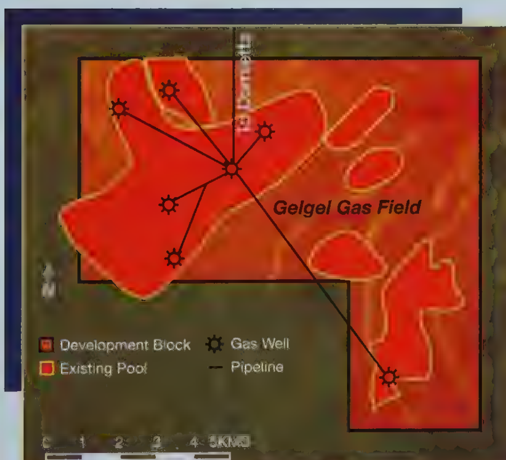
South El Manzala Development Leases

Centurion drilled seven wells within the development lease boundary. Five wells were drilled for shallow El Wastani and Kafr El Sheikh targets, resulting in four gas wells and one suspended well.

Abu Monkar #2 (AM-2) targeted the deep Sidi Salem formation. The well was suspended after mechanical drilling problems related to unexpected formation characteristics prevented completion of the well-bore and high pressure zones were encountered. AM-3 was drilled nearby as an attempt to re-access the same geological target. At year-end 2005, Centurion completed drilling, logging and casing the well. Testing of AM-3 indicated no commercial gas in this well.

Centurion also expanded its facilities in South El Manzala with the addition of inlet separation, compression and dehydration facilities, and the building of a new 12-inch diameter, 34-kilometre sales gas pipeline.

Production from the shallow horizons has declined with reservoir depletion to the current rate of approximately 20 mmscf per day. The additional processing capacity will be used for anticipated production from the potential new volumes from the West El Qantara exploration concession.

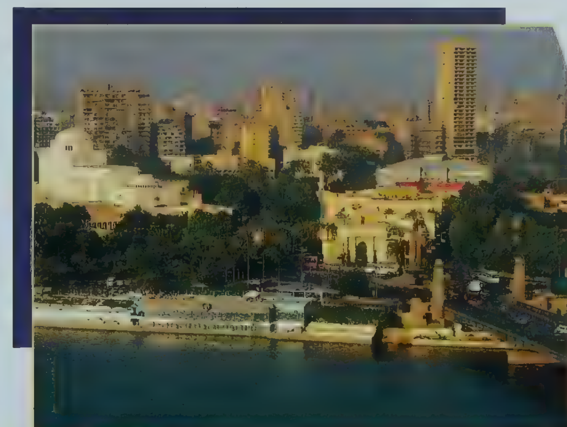


South El Manzala (100 Percent Working Interest)

West El Manzala and West El Qantara Exploration Concessions

3-D Seismic Program

In 2005, Centurion initiated a 2,000 square kilometre 3-D seismic program over the West El Manzala and West El Qantara concessions. The Company completed the acquisition of 1,400 square kilometres over the West El Manzala concession before the seismic crew was released to another operator. The crew will return to Centurion in the second quarter of 2006 to complete the acquisition over the West El Qantara concession.



Above: Cairo cityscape

Centurion began processing and interpreting the West El Manzala 3-D seismic program. The quality of the seismic data is excellent and the ongoing interpretation has revealed the presence of numerous multi-target prospects. The Company has budgeted 15 wells for 2006 in the West El Manzala concession starting with the El Hamra-1 well that was spudded in February, 2006.

Kom Ombo Exploration Concession (Block 2 Ganope)

Centurion completed the reprocessing of previous 2-D seismic and surface geological mapping. We have high-graded the play to the southern part of the concession where the Company acquired an additional 516 kilometres of 2-D seismic to firm up the leads and prospects. The newly acquired seismic is being integrated with the mapping to finalize the interpretation of prospects and leads. In addition, geochemical analysis and basin modeling will be conducted in 2006 to complete the geological and geophysical interpretation.

Above: Cairo market

Kom Ombo Temple, 332 BC, Nubia, Egypt.

West Gharib Concession

Hana Field

Centurion holds a 30 percent working interest in the onshore Hana oil field located in the Gulf of Suez area. The operator has maintained production rates from the field at approximately 500 barrels of oil per day net to Centurion through ongoing workovers and pump optimization. No additional wells were drilled within the field in 2005.

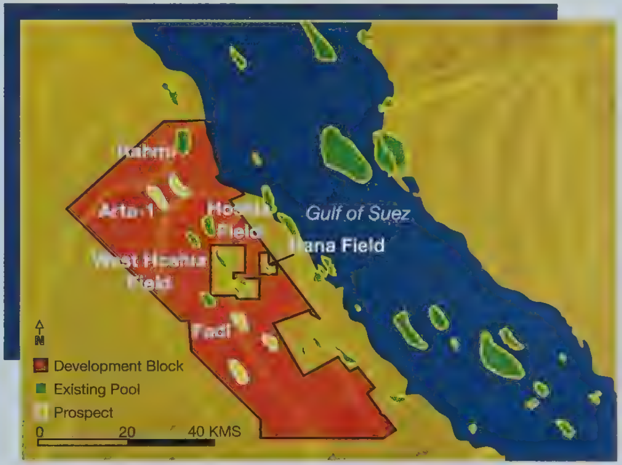
Exploration

An aggressive drilling campaign in 2005 of 12 (3.6 net) wells resulted in the discovery of three new fields – Hoshia, West Hoshia and Fadl. The 2005 well count included seven oil wells, three dry wells and two wells testing at year-end 2005.

Above: Feluka on the Nile

Government approval was obtained for defining new development leases associated with the discoveries and the additional production volumes added over 500 barrels of oil per day net to Centurion.

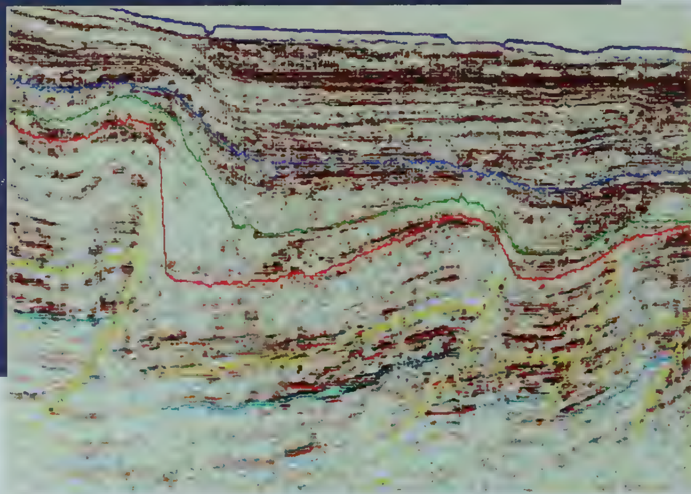
Additionally in 2005, two wells were re-entered and tested in the Rahmi field in the northern part of the Concession, and approval is being sought to recognize that area as a development lease. Additional 2-D seismic data was acquired during 2005 and 3-D seismic is being reprocessed to firm up 2006 drilling locations.



Focus Nigeria/Sao Tome

Nigeria/Sao Tome and Principe Joint Development Zone Block 4

Centurion was awarded a 10 percent interest (7.5 percent net) in Block 4 of the Nigeria/Sao Tome Joint Development Zone. The Production Sharing Contract (PSC) and Joint Operating Agreement (JOA) were signed March 14, 2006.



Above: Seismic depiction of the Nigeria deep-water play

Block 4 is an extension of the prolific Nigeria deep-water play where a number of significant oil discoveries were recently made. Based on the interpretation of 3-D seismic, several large structures capable of containing giant-sized oil fields have been identified and mapped.

Focus Tunisia

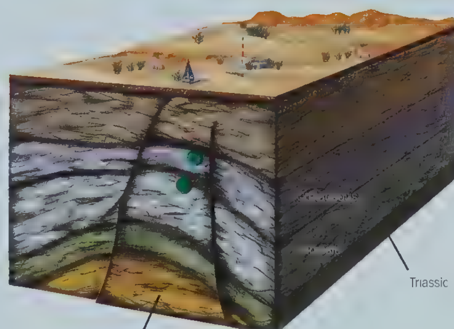
Tunisia

Centurion sold its producing properties to Candax Energy Inc. in April, 2005.

Mellita Permit

Two wells, the Midoun-1 well on Djerba Island and the offshore Amira-1, were drilled on the Mellita Permit by PetroCanada. The two wells fulfill the drilling permit commitment and PetroCanada's farm-in obligations.

The wells failed to encounter any significant hydrocarbon and were plugged and abandoned.



The resulting drilling and geological information is being integrated into the current seismic interpretation to rank and high-grade the remaining prospects.

Triassic Prospects

Centurion has retained the right to participate for up to 50 percent of its former working interest in the Triassic prospects that underlie the Cretaceous and Jurassic production in the Ezzaouia and El Biban fields.

The Triassic prospects are significant in size with the potential for multi-tcf of gas plus liquids reserves. The operator plans to drill the Ezzaouia prospect in 2007.

Business Development

Centurion exited 2005 with record production of 38,000 boe per day from its Egyptian fields, following a very successful and aggressive exploration and development drilling program on its development leases. The program's success is attributable to the reliability of the 3-D seismic which was used to interpret high-grade prospects and firm up locations.

In 2006, Centurion will step outside of the El Wastani development lease to explore other areas of the West El Manzala concession. The knowledge gained and the calibration techniques developed at El Wastani are being applied to the interpretation of the newly acquired 3-D on the West El Manzala concession. This has resulted in very significant growth in Centurion's prospect inventory as established gas trends and new trends are mapped. The 2006 drilling program will test the main trends on the West El Manzala concession.

We are confident that the 3-D seismic acquisition and interpretation over the West El Qantara concessions will also result into additional prospect inventory growth and opportunities.

We are encouraged with the results of the current interpretation of the prospectivity of the Kom Ombo Block. Centurion has mapped several prospects and leads that will be confirmed by the newly acquired seismic in preparation for future drilling.

Our new play in West Africa, the Nigeria/Sao Tome Block 4. offers opportunities for giant-sized oil field discoveries. We anticipate that the first well will be drilled in mid-2007.

In Tunisia, the plan is to drill a multi-tcf prospect in Ezzaouia in 2007. With success at Ezzaouia, exploration would move offshore to test the Triassic at El Biban.

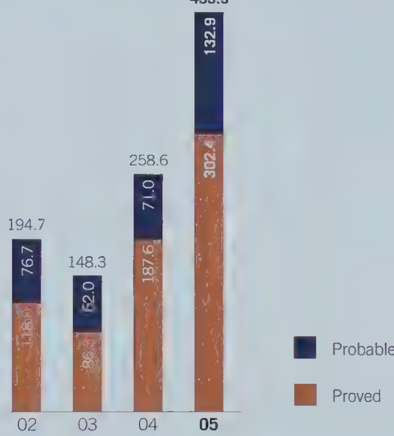
Centurion's growth plans are to build our business in Egypt and expand our exploration activities to an additional country. We have developed an aggressive approach to pursue selected countries by means of bid round, farm-in and asset acquisition.

Above: Tunisian olive trees

Reserves Summary

Proved plus Probable Reserves
(mmboe)

Net Present Value
(at 10 percent)



Centurion's proved plus probable reserves remaining as of December 31, 2005 are 97 mmboe, an increase of 89 percent over the previous year. Taking into account the sale of the Company's Tunisian reserves and production from the Egyptian properties over the course of the year, the Company recorded an increase of over 130 percent in both proved and probable reserves in Egypt. These increases came mainly as a result of the application of 3-D seismic and the results of successful multi-reservoir wells drilled in the El Wastani and El Wastani East development leases.

Centurion Working Interest Reserves [1]

As at December 31, 2005	Remaining Reserves				Cumulative Cash Flow (AIT) ($mm)[2]				
	Oil (mmstb)	Gas (bcf)	Condensate and LPG (mmbbls)	Combined (mmboe)[3]	Discounted at: 0%	5%	10%	15%	[illegible]
Proved developed	0.70	264.07	12.00	56.71	439.4	360.1	301.1	255.9	220.5
Proved undeveloped	0.00	2.41	0.12	0.52	2.2	1.7	1.3	0.9	0.6
Total proved	0.70	266.48	12.12	57.23	441.6	361.8	302.4	256.8	221.1
Probable	0.23	183.07	9.04	39.78	274.2	187.1	132.9	98.0	74.5
Proved plus probable	0.93	449.55	21.16	97.01	715.8	548.9	435.3	354.8	295.6

(1) As evaluated by Ryder Scott Company's report effective December 31, 2005.

(2) The cash flow amounts were determined on an after-tax basis using a constant price of US$59.17 Brent per barrel, the price as of December 31, 2005. The price used for gas in Egypt was based on the fixed terms of the gas purchase contracts. The corresponding average gas price over the life of the reserves is approximately US$2.65 per mcf. Prices for condensates and LPG as of year-end were determined to be US$56.80 per barrel and US$47.93 per barrel, respectively.

(3) boe – barrels of oil equivalent, gas converted at 6 mscf = 1 barrel

March 21, 2006

This Management's Discussion and Analysis (MD&A) is a review of operations, current financial position and outlook for Centurion Energy International Inc. (Centurion or the Company) and should be read in conjunction with the audited consolidated financial statements and related notes of Centurion for the years ended December 31, 2005 and 2004. The audited consolidated financial statements included in this MD&A have been prepared by management and approved by Centurion's Audit Committee on behalf of the Board of Directors. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. Refer to the Business Risk Assessment section of this MD&A for additional information related to identified risks, estimates and uncertainties.

All financial information is reported in Canadian dollars and is in accordance with Canadian generally accepted accounting principles (GAAP) unless otherwise noted. The financial measures of cash flow from operations and cash flow per share referred to in this MD&A are not recognized measures under GAAP and are further described under Non-GAAP Financial Measures in this MD&A.

Natural gas has been converted into barrels of oil equivalent (boe) at 6:1. The abbreviations boe, boepd and mboe disclosed in this MD&A may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf : 1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this MD&A including statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: statements relating to "reserves" and "resources" as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future; expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; the maintenance of existing government, supplier and partner relationships; supply channels; accounting policies; balance sheet financial instruments; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us and other factors, many of which are beyond our control. The foregoing factors are not exhaustive and are further discussed herein under the heading "Business Risk Assessment" and in the Annual Information Form of Centurion Energy International Inc. filed on SEDAR at www.sedar.com.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Except as required by law, Centurion Energy International Inc. disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

Performance Indicators

	2005	2004	2003
Financial			
($000s CAD except per share amounts)			
Cash flow – continuing operations	59,244	31,029	10,732
Cash flow – discontinued operations	6,430	11,036	20,063
Cash flow – corporate	65,674	42,065	30,795
Basic per share – continuing operations	$ 0.67	$ 0.40	$ 0.17
Diluted per share – continuing operations	$ 0.64	$ 0.38	$ 0.16
Basic per share – corporate	$ 0.75	$ 0.54	$ 0.48
Diluted per share – corporate	$ 0.71	$ 0.51	$ 0.46
Earnings – continuing operations	6,653	10,505	536
Earnings – discontinued operations	2,474	2,895	10,091
Earnings – corporate	9,127	13,400	10,627
Basic per share – continuing operations	$ 0.08	$ 0.13	$ 0.01
Diluted per share – continuing operations	$ 0.07	$ 0.13	$ 0.01
Basic per share – corporate	$ 0.10	$ 0.17	$ 0.17
Diluted per share – corporate	$ 0.10	$ 0.16	$ 0.16
Net revenue – continuing operations	108,626	54,796	24,425
Net revenue – corporate total	117,605	72,693	52,104
Total assets	253,753	180,657	148,744
Total long-term financial liabilities	18,865	34,735	33,677
Common shares outstanding	88,577,185	84,055,985	74,351,127
Production			
Average daily rate (boe per day)			
Continuing operations	22,250	9,854	4,185
Discontinued operations	613	1,621	2,417
Corporate total	22,863	11,475	6,602
Annual production (mboe)			
Continuing operations	8,121	3,605	1,528
Discontinued operations	224	594	882
Corporate total	8,345	4,199	2,410
Exit production rate (boe per day)	38,000	21,150	10,500
Sales Price Realizations (Continuing Operations)			
Natural gas (US$ per mcf)	2.76	2.70	2.74
Crude oil (US$ per bbl)	35.03	28.50	23.46
Condensate (US$ per boe)	53.87	38.41	27.77

Production Summary for the Periods Ended December 31, 2005

[illegible]	[illegible]	[illegible]	[illegible]	[illegible] (bbls)	Total 2005 (boe) (6:1)	Average 2005 (boe/d) (6:1)	Q4 2005 (boe) (6:1)	Q4 2005 (boe/d) (6:1)
El Wastani	24,250	789,366	366,986	–	5,198,004	14,242	1,890,541	20,550
South El Manzala	16,224	–	–	–	2,703,974	7,408	422,044	4,587
Hana	–	–	–	219,154	219,154	600	68,809	748
Total Egypt	**40,474**	**789,366**	**366,986**	**219,154**	**8,121,132**	**22,250**	**2,381,394**	**25,885**
Total Tunisia (1)	**529**	–	–	**135,641**	**223,811**	**613**	–	–
Corporate Total	**41,003**	**789,366**	**366,986**	**354,795**	**8,344,943**	**22,863**	**2,381,394**	**25,885**

(1) Tunisian properties are classified as discontinued operations as they were sold on April 26, 2005. Refer to note 2 of the Consolidated Financial Statements for further details.

Proved plus Probable Reserves for the Periods Ended December 31

Constant Prices (1)

[illegible]	2005	2004	2003
Egypt			
Proved	**57.23**	28.07	8.90
Probable	**39.78**	17.39	19.19
	97.01	45.46	28.09
Tunisia			
Proved	–	3.41	6.15
Probable	–	2.48	3.91
	–	5.89	10.06
Company Total	**97.01**	51.35	38.15

(1) As evaluated by Ryder Scott Company's report effective December 31, 2005.

Reserves additions in Egypt of 59.7 million boe less production of 8.1 million boe resulted in a net reserves increase of 51.6 million boe. The reserves additions replaced production by a factor of 7.4 times. This increase is mainly a result of the application of three dimensional (3-D) seismic and successful drilling results on the Company's Nile Delta properties. All reserves associated with the Tunisian producing properties were sold on April 26, 2005. Refer to note 2 of the Consolidated Financial Statements for further details.

Corporate Summary of Fiscal 2005

2005 was another successful year for Centurion with several key milestones being achieved. For the second year in a row, both exit and average production rates increased by over 75 percent from prior year levels and in early January 2006, production surpassed the 40,000 boe per day level for the first time in the Company's history. The El Wastani field continues to exceed our expectations and was the main area of growth in 2005. Further development drilling and step-out wells are expected to keep El Wastani production at its current level for several years. South El Manzala production has declined in 2005 as water breakthrough and sand influx into the well bore has limited the productive capability of some of the wells in the area.

Proved plus probable reserves associated with El Wastani and South El Manzala increased 113 percent over 2004. Using the 2005 exit rate of 38,000 boe per day, Centurion's proved plus probable reserve life index has increased to 7.0 years from 6.6 years at the end of 2004. This increase in reserves also provided Centurion with the ability to increase its secured borrowing capabilities. In late 2005, Centurion closed a US$150 million four-year term facility with Standard Bank plc of which only US$12 million was drawn at year end. Centurion's ability to obtain such a credit facility was based entirely upon reserves and production increases at El Wastani.

The 3-D seismic program in the West El Manzala exploration concession was completed in late 2005 with 1,400 square kilometres of seismic data being acquired. The seismic crew was released to another operator and will return to complete the seismic program on the West El Qantara concession in mid-2006. Seismic processing and interpretation in both Calgary and Cairo was completed simultaneously with the acquisition program and Centurion has mapped 15 drilling locations on the West El Manzala properties. At the time of writing, two exploration wells (El Hamra and El Deeb) are currently drilling towards multiple target sands. Production from anticipated exploration and development successes in the Nile Delta area will be the main source for future growth for Centurion in Egypt.

In connection with the increased production levels achieved in 2004 and 2005, Centurion has made the decision to purchase and operate its own gas processing facilities at El Wastani, which are currently being constructed. Shipping and installation will occur in three phases and should be completed in the fourth quarter of 2006. The installation of Centurion's own facilities will not only reduce current dependence upon third-party processors to accept increasing production volumes from El Wastani, but will allow Centurion to recover more condensate and liquefied petroleum gases for sale at world prices. The new gas plant will have a designed capacity of 150 mmscf per day of gas sales and is expected to recover over 5,000 barrels per day of condensate and 2,500 barrels per day of LPG based on the El Wastani field's gas characteristics.

Centurion commenced Egyptian production in 2002, which supplemented an existing production base in Tunisia. Although Tunisia was the backbone of Centurion from its beginnings in 1997 to 2002, production declines and marginal exploration success ultimately led to the sale of all productive assets in Tunisia in early 2005. Centurion retained an interest in three exploration concessions in Tunisia; however, two consecutive dry holes in the Mellita Exploration Permit have resulted in Centurion electing to write off all of the book value associated with these concessions in 2005. This write-off amounted to $14.5 million ($0.17 per share) and has been included in the depletion expense for the year.

Subsequent to year end, Centurion entered into a conditional purchase and sales agreement with a private U.S. based company to acquire an interest in an additional 1.3 million gross acres of land in Egypt and Texas. This acquisition also includes current production of 8,208 boe per day (5,625 boe per day in Egypt and 2,583 boe per day in Texas) on these properties. More importantly, the land holdings acquired in Egypt are immediately south and southwest of the West El Manzala and West El Qantara concession, resulting in Centurion having an interest in over 2 million acres of contiguous land holdings in the Nile Delta of Egypt.

Fiscal 2005 was another successful year for Centurion as cash flow again reached record levels as a result of continued increases in production over prior years. Corporate cash flow for 2005 was $65.7 million ($0.75 per share basic, $0.71 per share diluted) compared to $42.1 million ($0.54 per share basic, $0.51 per share diluted) in 2004. Cash flow increased by 56 percent and cash flow per fully diluted share increased 39 percent over fiscal 2004. Excluding the impact of the Tunisian properties write-down, earnings for 2005 were $23.6 million ($0.27 per share basic, $0.26 per share diluted) compared to $13.4 million ($0.17 per share basic, $0.16 per share diluted) in 2004. Including the impact of this write-down,

earnings were $9.1 million ($0.10 per share basic, $0.10 per share diluted). The continued strengthening of the Canadian dollar (CUX reporting currency) versus the U.S. dollar (currency of revenue and expenses) also had a negative impact on reported cash flow and earnings. See foreign exchange fluctuations discussed below.

conomic Factors Affecting Centurion

The following economic factors represent both positive and negative changes in global and local economies and more specifically, the oil and gas industry in Egypt. Centurion has no direct control over these factors and is subject to the full effect that these factors may have upon the Company and its operations. In several cases, mitigating actions have been undertaken by Centurion; however, there is no assurance that such actions will have any continuing impact in controlling these factors and their effect on Centurion.

Foreign Exchange Fluctuations

Centurion operates in a U.S. dollar based environment. All revenues and the majority of our costs (both capital and operating) are paid in U.S. dollars. However, being a Canadian company trading primarily on a Canadian exchange, Centurion reports its financial results in Canadian funds. Accordingly, all U.S. dollar amounts presented in Centurion's statements of operations and cashflows are converted to Canadian funds for reporting purposes based on the average Canadian to U.S. dollar exchange rates prevailing during the reporting period.

During 2005, the average Canadian to U.S. dollar exchange rate was $0.83 compared to $0.77 in 2004. The strengthening Canadian dollar in 2005 had the effect of reducing all U.S. dollar translated amounts on the statements of operations and cash flows by approximately 8 percent compared to 2004. The effect of this reduction on earnings and cash flow was approximately $0.01 and $0.06 per share, respectively.

Commodity Prices

Centurion produces four different types of hydrocarbons from its operations in Egypt. El Wastani produces gas as well as associated liquids including condensate, liquefied petroleum gas "LPG" and light oil. South El Manzala produces dry natural gas and production from West Gharib is primarily medium-gravity oil.

Under the terms of Centurion's Production Sharing Contracts (PSCs) in Egypt, natural gas is sold at a fixed price of US$2.65 per mmbtu as long as Brent Oil prices are in excess of US$22 per barrel. Should Brent Oil prices fall below US$22 per barrel, then a sliding scale formula becomes effective with a floor price of US$1.50 per mmbtu should Brent Oil prices fall below US$10 per barrel. Any condensate, LPG and oil produced from Centurion's concessions is sold on the open market and receive competitive world pricing. Centurion presently does not receive the full financial benefit of LPGs produced as Centurion currently lacks its own field facilities required to capture all the LPG and condensate produced. Instead, liquid-rich gas produced is sent to a third-party processing plant where deeper liquids processing is done. Centurion then sells 100 percent of the condensate recovered from this third-party processing at world prices but foregoes any LPG volumes in lieu of paying reduced processing costs. As a result, and to provide production expansion capabilities, Centurion has initiated the construction of its own processing plant to alleviate the loss of LPG volumes to third-party processing. It is anticipated that this plant will be completed in late 2006.

In 2005, the average price realized, before royalty, by Centurion was US$2.76 per mcf of natural gas (US$2.70 per mcf in 2004), US$53.87 per barrel of condensate (US$38.41 per barrel in 2004) and US$35.03 per barrel of oil (US$28.50 per barrel in 2004). The corporate average price, before royalties, received for a barrel of oil equivalent was $26.58 compared to $23.87 in 2004 as there was a change in production mix towards oil and condensate in 2005 (17 percent) compared to 2004 (5 percent), which receives higher realized prices as compared to natural gas.

Equipment/Labour Shortages and Inflationary Costs

As a result of increased oil prices and a hyperactive oil and gas industry throughout the world, Centurion has noted an increase in demand for and difficulty obtaining capital equipment, service providers and qualified labour to support our growing production and exploration base. Directly associated with this increased demand is an increase in the cost of obtaining such equipment and services if and when they are available. Centurion is cognizant of the impact that these issues have, particularly on an international oil and gas company and is constantly trying to secure quality services at reasonable prices.

During 2005, these issues primarily affected Centurion's large capital projects and drilling programs while having minimal impact on Centurion's operating expenses which are primarily fixed in nature. The most noticeable effect related to delays in sourcing and shipping facility equipment as well as tubulars and casing. To mitigate these effects in 2006, Centurion has pre-ordered approximately US$30 million worth of casing and other drilling supplies to avoid any delays in the drilling program currently planned, and is securing additional equipment on a leased basis to ensure that production increases can be maintained.

Financial Review

Calculation of per Barrel Amounts

Production and sales volumes for 2005 are not the same figure due to the inventorying of approximately 14,485 barrels of condensate in Egypt at year end. This volume was subsequently sold in early January 2006 and for financial reporting purposes it will not be treated as sales in 2005. Accordingly, all per boe amounts referenced in this MD&A are based on the sales volumes achieved in 2005 which totaled 8,106,647 boe.

Dilution Impacts

In January, 2005, Centurion issued 3.0 million common shares for proceeds of $37.0 million net of issue costs. The proceeds from this share offering, in addition to 2005 cash flow provided from operations, assisted in financing Centurion's 2005 drilling and development programs in Egypt. As a result of the share offering, a dilution impact is noted on per share results until the benefit of the expenditures made from funds raised translates into new production, cash flow and earnings. The dilution associated with this stock issue resulted in a decrease in cash flow for 2005 of $0.02 per share while it had a negligible impact on earnings.

Continuing Operations

On April 26, 2005, Centurion completed the sale of its Tunisian assets to Candax Energy Inc. As a result of this transaction, Centurion has presented all of the revenues and expenses associated with the operations included in the sale as discontinued operations for financial reporting purposes. The carrying amount of assets and liabilities associated with the discontinued operations sold are no longer included on the balance sheet and were netted against proceeds received on the sale.

The MD&A has been segregated between continuing operations (primarily Centurion's Egyptian operations) and discontinued operations (Tunisia), as a result of the sale of the Tunisian producing assets. Any prior year comparative figures have been restated to give a meaningful comparison for the current year's activities.

Revenue ($000s except per boe amounts)	**2005**	2004
Oil and gas sales (net of royalties)	**107,238**	54,270
Average gross price realized before royalty ($ per boe)	**26.58**	23.87

Sales, net of royalties, for the year ended December 31, 2005 were $107.2 million compared to $54.3 million for the comparable period in 2004, an increase of 98 percent. For the three months ended December 31, 2005, sales, net of royalties, were $34.3 million compared to $16.6 million for the comparable period in 2004. The increase was mainly due to a 344 percent increase in sales volumes achieved in the El Wastani field associated with both the installation of further field processing equipment and further development and step-out drilling in 2005. Offsetting the increases in El Wastani production were the effects of foreign currency fluctuations and a reduction in Centurion's share of Egyptian production from 47.5 percent in 2004 to an average of 36.4 percent in 2005.

Under the terms of the Production Sharing Contract (PSC) for the El Manzala Concession (amounting to 97 percent of Centurion's 2005 production which

includes the El Wastani, East El Wastani and South El Manzala Development Leases), Centurion receives both a cost recovery portion and profit portion of any hydrocarbons produced. The cost recovery portion is limited to the lesser of i) 30 percent of gross sales and ii) 20 percent of non-recovered capital costs plus 100 percent of current operating costs. The remaining production is deemed the profit portion which Centurion and the Egyptian Government share at 25 percent and 75 percent respectively. In the West Gharib Concession (amounting to 3 percent of Centurion's 2005 production) the PSC terms differ slightly between cost recovery portion and profit portion resulting in a 51 percent allocation to Centurion.

Focusing on the El Manzala Concession, Centurion's production prior to 2005 was such that it received the full 30 percent of the cost recovery portion of production plus its share of the profit portion. This resulted in 47.5 percent of total production being allocated to Centurion. As a result of growing revenues resulting from increased production and commodity prices, the percentage of gross production Centurion received in 2005 decreased to approximately 36.4 percent from the previous year's level of 47.5 percent. The production volumes taken by the Egyptian Government are in lieu of any further taxes and royalties and the 36.4 percent allocation Centurion received has no further financial encumbrances upon it.

Centurion accounts for the Egyptian Government's share of production volumes as royalty and tax expense. For the year ended December 31, 2005, the royalty expense approximated $108.5 million (50 percent of gross sales) compared to $31.8 million (37 percent of gross sales) for the comparable period in 2004. The increase in royalty rate is commensurate with the increased production allocation to the Egyptian Government discussed above, while the income tax portion remains at 43.5 percent.

Operating Expense ($000s except per boe amounts)	**2005**	2004
Operating expense	**16,780**	5,472
Field cost per boe ($)	**1.07**	1.05
Processing cost per boe ($)	**1.00**	0.46
Per boe ($)	**2.07**	1.51

Total operating expense for 2005 amounted to $16.8 million ($2.07 per boe) compared to $5.5 million ($1.51 per boe) for 2004. For the three months ended December 31, 2005, operating expenses were $4.8 million ($2.01 per boe) compared to $1.1 million ($0.93 per boe) for the comparable period in 2004. The increase in per boe operating expenses is attributable to the increased value of the LPG produced from El Wastani that the Abu Madi plant operator keeps in lieu of payment for third-party gas processing. These costs amounted to $8.1 million ($1.00 per boe) for the year ended 2005 compared to $1.6 million ($0.46 per boe) for the comparable period in 2004. The value of the LPG produced is recorded as sales with a corresponding amount charged to operating expense.

Netback ($ per boe)	**2005**	2004
Revenue (net of royalty)	**13.23**	15.06
Operating expense	**(2.07)**	(1.51)
Netback	**11.16**	13.55

The netback on the Company's production for the year ended December 31, 2005 (revenues net of royalties less operating costs) was $90.5 million ($11.16 per boe) compared to $48.8 million ($13.55 per boe) for the comparable period in 2004. The decrease in netbacks per boe can be largely explained by a decrease in cost recovery allocation (47.5 percent in 2004 to 36.4 percent in 2005) to Centurion under the terms of the Production Sharing Contract coupled with increased operating costs. Each of these factors has been described in more detail in the relevant discussions above.

General and Administrative Expenses

($000s except per boe amounts)	**2005**	2004
Total	**6,873**	5,585
Capitalized – continuing operations	**(4,165)**	(1,613)
Capitalized – discontinued operations	**–**	(919)
Expensed	**2,708**	3,053
Expensed per boe ($)	**0.33**	0.73

General and administrative expenses for the year ended 2005 were $2.7 million ($0.33 per boe) compared to $3.1 million ($0.73 per boe) for the comparable

period in 2004. For the three months ended December 31, 2005, general and administrative expenses were $0.6 million ($0.26 per boe) compared to $0.9 million ($0.76 per boe) for the comparable period in 2004.

Depletion, Depreciation and Amortization

($000s except per boe amounts)	**2005**	2004
Oil and gas depletion, depreciation and amortization	**27,847**	17,834
Per boe ($)	**3.44**	4.95
Other depreciation and impairment charge	**15,666**	643

The depletion provision for 2005 amounted to $27.8 million ($3.44 per boe) compared to $17.8 million ($4.95 per boe) for 2004. For the three months ended December 31, 2005, the provision totaled $6.5 million ($2.74 per boe) compared to $5.4 million ($4.77 per boe) for the comparable period in 2004. The increase in proved reserve volumes at December 31, 2005 resulted in a decrease in the per boe depletion rate.

Other depreciation and amortization amounts to $15.7 million, inclusive of a $14.5 million write-off in respect of unsuccessful Tunisian exploration properties. The remaining depletion of $1.2 million relates to depreciation of non-core oil and gas assets.

Interest and Finance Costs

Interest and finance costs for the year ended 2005 totaled $1.2 million compared to $1.0 million in 2004. The increase of $0.2 million was caused by a marginal increase in LIBOR which increased the variable component of the interest rate calculation on Centurion's outstanding loan balance and increased standby fees when Centurion increased the available loan amount from US$30 million to US$40 million in late 2004. For the three months ended December 31, 2005, interest and finance costs totaled $0.3 million consistent with $0.3 million for the comparable period in 2004. The 2005 and 2004 costs represent interest on both the bank indebtedness and the capital lease for certain field facilities in Egypt.

Foreign Prospect Review Costs

Foreign prospect review costs for the year ended 2005 totaled $1.2 million compared to $0.7 million for 2004. For the three months ended December 31, 2005, foreign prospect review costs totaled $0.4 million compared to $0.1 million for the comparable period in 2004. The increase of $0.5 million results from ongoing efforts to acquire exploration and productive acreage in other North African countries. In 2005, Centurion focused on the bid rounds and other efforts to establish a foothold in Libya, so far without success. Centurion has also been approved to bid in the next round of licensing in Angola. Costs associated with these efforts are expensed until a valid concession or exploration license has been acquired or when the market value of the assets exceeds the carrying value.

Stock-Based Compensation

Stock-based compensation expense for 2005 amounted to $8.0 million compared to $1.7 million for 2004. For the three months ended December 31, 2005, stock-based compensation expenses were $5.0 million compared to $0.2 million for the comparable period in 2004. The increase in stock-based compensation expense in 2005 relates to options granted during the year which include a higher fair value due to increased share price volatility under the Black-Scholes valuation method and shorter vesting period requirements.

Amortization of Deferred Financing Costs

Amortization of deferred financing costs for the year ended December 31, 2005 was $1.0 million compared to $0.2 million for the comparable period in 2004. The increase in amortization is primarily a result of the write-off of $0.5 million of previously unamortized deferred financing costs related to the 2004 US$40 million credit facility, which was replaced with a US$150 million credit facility late in the fourth quarter of 2005. For further details on this new credit facility, please refer to the Liquidity, Capital Resources and Capital Expenditures section below.

Liquidity, Capital Resources and Capital Expenditures

Capital expenditures for 2005 totaled $164.8 million including $156.2 million spent in Egypt, $0.2 million spent in Canada and $8.4 million spent in Tunisia. The expenditures in Egypt consisted of 2005 drilling program costs, facility installation costs, 3-D seismic acquisition and general geological and geophysical programs.

Cash on hand at December 31, 2005 was $27.1 million compared to $37.4 million at December 31, 2004. Centurion had working capital of

$28.9 million at December 31, 2005, compared to working capital of $49.3 million at December 31, 2004.

During the fourth quarter of 2005, Centurion revised its credit facility with the Standard Bank plc (Standard Bank). This new facility has a credit limit of US$150 million, with US$100 million available immediately and an option of an additional US$50 million subject to certain bank restrictions. This new facility has replaced the prior US$40 million facility. This revised facility, in addition to forecast 2006 cash flow from operations, is expected to meet the anticipated 2006 capital program requirements and allow for continued exploration and development growth in focus areas.

Summary of Contractual Obligations

Debt Payments Due by Period

($000s)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Standard Bank financing	13,618	–	–	13,618	–
Capital lease obligations[1]	2,064	560	1,504	–	–
West El Manzala and West El Qantara obligations[2]	4,373	4,373	–	–	–
Total contractual obligations	20,055	4,933	1,504	13,618	–

(1) A capital lease agreement with Northstar Trade Finance Ltd. for sales leaseback arrangement of compression equipment previously purchased and installed at the Company's gas fields in Egypt was entered into in May 2004. The lease requires equal monthly payments of US$51,000 for five years. The lease arrangement results in an interest rate of approximately 8 percent.

(2) In May 2004, Centurion was awarded the West El Manzala and West El Qantara blocks in the Nile Delta of Egypt. Centurion and its partner (Centurion – 75 percent working interest) have committed to spend US$18 million on the blocks (US$13 million in West El Manzala and US$5 million in West El Qantara) during the first phase of exploration. A 2,000 square kilometre 3-D seismic program has been commenced on these lands at an estimated program cost of US$20 million, which will satisfy the commitment during the first phase of exploration. In December 2005, the Standard Bank, backed by Export Development Canada, replaced a cash deposit with a performance guarantee for these commitments.

Accounting Policies and Estimates

Changes in Accounting Principles

No changes in accounting principles were adopted in 2005.

Recent Accounting Principles

The following are new and revised accounting pronouncements that have been issued and are not yet effective, which management is currently assessing:

For the first quarter of 2006, the Company will adopt Section 3831 "Non-Monetary Transactions" issued by the Canadian Institute of Chartered Accountants ("CICA") in June 2005. Under this new standard, a commercial substance test will replace the culmination of earnings test as the criteria for fair value measurement. In addition, the definition of fair value measurement is clarified. The Company does not anticipate the application of this new standard to have a material impact on its consolidated financial statements.

For the year ending December 31, 2007 the Company will be required to adopt Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges" issued by the CICA in January 2005. Under the new standards: a new financial statement, Comprehensive Income, has been introduced that will provide for certain gains and losses, including foreign currency translation adjustment and other amounts arising from changes in fair value to be temporarily recorded outside the income statement. In addition, all financial instruments are to be included on the Company's balance sheet and measured at fair values in most cases. In addition, requirements for hedge accounting have been further clarified. Although the Company is in the process of evaluating the impact of these standards, it does not expect the Financial Instruments and Hedges standards to have a material impact on its consolidated financial statements as it currently does not utilize derivative instruments.

During the next five years the CICA will adopt its new strategic plan for the direction of accounting standards in Canada ratified in January 2006. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Report Standards ("IFRS") over the next five years. The Company continues to monitor and assess the impact of the planned convergence of Canadian GAAP with IFRS.

Major Transactions Subsequent to Year End

Conditional Purchase of a Private Company with Operations in Egypt and Texas

In February 2006, the Company entered into a conditional purchase and sales agreement to acquire a private U.S. corporation. The acquisition includes operated properties in Egypt's Nile Delta region and in Texas, U.S. The acquisition is expected to close in April 2006. Centurion is buying all of the shares of the private company for cash consideration of US$225 million plus working capital and inventory, less debt.

The Egyptian properties include interests of 50-54 percent in three Egyptian concessions and seven development leases comprising 1.3 million acres (653,000 acres net). The concessions, El Mansoura, El Qantara and S.E. El Mansoura, are located in the Nile Delta region of northern Egypt and are contiguous and immediately southwest of Centurion's existing West El Manzala and West El Qantara Concessions.

This acquisition also includes interests in nine producing wells located northeast of Houston, Texas, U.S. The current working interest share of production is approximately 14 mmscf per day and 250 barrels per day of oil and condensate.

CTIP Oil and Gas Limited Acquisition

On March 15, 2006, the Company entered into an agreement with CTIP Oil and Gas Limited to acquire a 25 percent participating interest in the West El Manzala and West El Qantara Concessions. Following the closing of this acquisition, the Company will hold a 100 percent participating interest in each of these concessions.

Under the terms of the acquisition agreement, the Company has agreed to pay US$20 million and to issue 1,000,000 common shares at a price of Cdn$12.10 per share for the concession interests. The Company has agreed to pay additional payments that could total up to a further US$25 million as and when specific discovery volumes and development objectives are met. Centurion has also granted a three percent net profits interest to CTIP on future production from the concessions.

Closing of the transaction, which is subject to Egyptian government approval, is expected to occur within the next 30 to 60 days.

Nigeria/Sao Tome – Joint Development Zone (JDZ)

On March 14, 2006, the Company signed a Production Sharing Contract (PSC) and received formal granting by the JDZ of its 10 percent (gross) equity interest, 7.5 percent (net) in Block 4. Under the PSC the Company is obligated to pay US$6.75 million, being its share of the total signature bonus. The Company will also be obligated to pay its share of the minimum work program of two exploration wells and one appraisal well, or its share of the total minimum expenditure of US$53 million for the block.

Block 4 is an extension of the prolific Nigeria deep-water play where a number of oil discoveries have been made recently. It covers a gross area of 857 square kilometres and lies in water depths of 1,800-2,200 metres.

West El Manzala and West El Qantara Farm-out

On March 20, 2006, the Company signed an agreement with Shell Egypt West Manzala GmbH and Shell Egypt West Qantara GmbH ("Shell"). The agreement provides for a Farm-in and LNG Cooperation Agreement, through which Shell will acquire a 50 percent interest in the West El Manzala and West El Qantara concessions. The farm-out to Shell is subject to certain conditions, including obtaining the government approvals for a transfer that is required under the concessions agreements.

Under the Shell agreement, Shell will make an initial payment to the Company of US$15 million and will pay 50 percent of all future exploration and development costs for as long as they remain a concession owner. If Shell continues as a concession owner after the drilling of an initial five-well exploration program, an additional payment of US$20 million is payable by Shell to the Company. If Shell elects not to continue, the interest of Shell will revert back to Centurion. The first well in the five-well exploration program was spudded on February 7, 2006.

Shell has agreed to pay additional premiums that could total up to a further US$225 million if and when specific discovery volumes and development objectives are met.

Dicontinued Operations

Sale of Tunisian Producing Assets

On April 26, 2005, Centurion completed the sale of its Tunisian assets to Candax Energy Inc. The transaction resulted in final proceeds of approximately $43.7 million, inclusive of working capital adjustments.

As a result of this transaction, Centurion has presented all of the revenues and expenses associated with the operations included in the sale as discontinued operations for financial reporting purposes. The carrying amount of assets and liabilities associated with the discontinued operations sold are no longer included on the balance sheet and are netted against proceeds received on the sale. This resulted in income from discontinued operations of approximately $2.5 million being recorded in the year ended December 31, 2005. Note 2 to the annual consolidated financial statements provides further detail related to the sale of these assets.

The MD&A has been segregated between continuing operations (primarily Centurion's Egyptian operations) and discontinued operations (Tunisia), as a result of the sale of the Tunisian-producing assets. Any prior-year comparative figures have been restated to give a meaningful comparison for the current year's activities.

Although the sale of the Tunisian properties was effective January 1, 2005, GAAP requires that the vendor continue recording financial activity of the discontinued operations until the transaction actually closes. Accordingly, production volumes, revenues, operating costs and tax expense associated with the discontinued operations have been reported for the period of January 1, 2005 to the closing date of April 26, 2005 by Centurion.

Sales, net of royalties for the year ended December 31, 2005 were $9.0 million compared to $17.8 million for the same period in 2004. The decrease is a result of operations in 2005 reported through April 26, 2005 as compared to twelve months for 2004.

Earnings from discontinued operations for the year ended December 31, 2005 were $2.5 million compared to $2.9 million for the comparable period in 2004. As the sale of the operations closed on April 26, 2005, there were no discontinued operations earnings to report for the fourth quarter of 2005, compared with $0.4 million of losses in 2004. Prior to the closing of the sale, the 2005 earnings were positively affected by increased netbacks received per barrel produced due to current oil prices and the sale of 40,000 barrels of oil held in inventory at year end. Additional increases in discontinued earnings in 2005 related to no depletion being charged on the assets held for sale since December 31, 2004. In 2004, depletion of $1.5 million was charged against these assets for the year ended December 31, 2004 and reduced earnings accordingly.

Summary of Quarterly Results

($ millions, except per share amounts)	2005 Q4	Q3	Q2	Q1	2004 Q4	Q3	Q2	Q1
Sales (net of royalties)								
Continuing operations	34.3	28.8	22.9	21.2	16.6	15.0	11.6	11.1
Discontinued operations	–	–	0.3	8.6	3.4	6.9	4.2	3.3
Corporate total	34.3	28.8	23.2	29.8	20.0	21.9	15.8	14.4
Cash flow								
Continuing operations	18.2	15.6	13.2	12.2	10.2	7.5	6.7	6.6
Discontinued operations	–	–	0.2	6.2	1.3	5.4	2.8	1.6
Corporate total	18.2	15.6	13.4	18.4	11.5	12.9	9.5	8.2
Basic per share – continuing operations	0.20	0.18	0.15	0.14	0.13	0.09	0.09	0.09
Diluted per share – continuing operations	0.19	0.17	0.15	0.13	0.12	0.09	0.09	0.08
Basic per share – corporate total	0.20	0.18	0.15	0.22	0.14	0.16	0.13	0.11
Diluted per share – corporate total	0.19	0.17	0.15	0.20	0.13	0.15	0.12	0.11
Earnings								
Continuing operations	(9.6)	7.6	4.4	4.3	4.1	1.9	2.3	2.2
Discontinued operations	–	–	(0.5)	3.0	(0.4)	2.0	1.5	(0.2)
Corporate total	(9.6)	7.6	3.9	7.3	3.7	3.9	3.8	2.0
Basic per share – continuing operations	(0.11)	0.09	0.05	0.05	0.05	0.02	0.03	0.03
Diluted per share – continuing operations	(0.11)	0.08	0.05	0.05	0.05	0.02	0.03	0.03
Basic per share – corporate total	(0.12)	0.09	0.04	0.09	0.04	0.05	0.05	0.03
Diluted per share – corporate total	(0.10)	0.08	0.04	0.08	0.04	0.05	0.04	0.03

Financial Instruments

Balance Sheets Financial Instruments

Centurion's financial instruments presented in the Consolidated Balance Sheet consist of cash and equivalents, accounts receivable, accounts payable and long-term debt. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in current market transactions. Based on these assessments, the carrying value of identified financial instruments approximates fair value.

Concentration of Credit Risk

Currently, all production of the Company is sold to one customer, the Egyptian Government. The Company is exposed to credit risk in the event that the Egyptian Government is unable to meet its financial obligations.

Oil Price Collars

A requirement of the Standard Bank financing in 2002 was that the Company put a hedge arrangement in place to provide protection against low prices to ensure that the Company would have sufficient cash flow to meet its debt obligations to the bank. Accordingly, no-cost collars were entered into to ensure a floor price for specified quantities of oil production. The final oil price collar was settled in March 2004 for a loss of $1.2 million, and has been recorded as a reduction of oil and gas revenue in the discontinued operations. There are no further oil price collars outstanding at December 31, 2005 and 2004.

ical Estimates

In reporting financial and reserves information, the Company is required to use certain estimates. These estimates relate primarily to the future development costs associated with proved undeveloped reserves, reserve volumes, future production and revenues, and future costs associated with site restoration liabilities. The Company has all of its oil and gas reserves, future development costs and future cash flows from those reserves evaluated and reported on by independent petroleum reserve engineering consultants. The estimation of these amounts is a subjective process, based on engineering data, forecasted prices and production levels and the timing of expenditures. All of these estimates are subject to numerous uncertainties and various interpretations, and consequently will change over time to reflect updated information as it is received.

Business Risk Assessment

There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. The following outlines some of the principal risks and their potential impact to the Company.

Foreign Investments

All of the Company's oil and gas operations and related assets are located outside Canada. These operations are subject to the risks associated with foreign investment including tax increases, royalty increases, renegotiations of contracts, currency exchange fluctuations and political uncertainty. The jurisdiction in which the Company primarily operates, Egypt, has a well established fiscal regime and there are some improved fiscal terms to encourage investment. The U.S. dollar is the functional currency in the primary operating area. Centurion is paid in U.S. dollars for the sale of its production.

As operations are primarily carried out in U.S. dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes. Based upon the 2006 cash flow estimate and a Canadian dollar exchange rate between US$0.85 and US$0.90, the effect for each $0.01 change in exchange rate is less than $0.01 per share, fully diluted.

Commodity Prices

Centurion's oil and gas prices are affected by factors such as supply and demand, oil quality and transportation adjustments. During 2006, the Company expects to have oil, gas and natural gas liquids sales from its Egyptian operations. Centurion's gas production from its Egyptian reserves has a sales contract with a selling price of US$2.65 per mmbtu when the Brent Oil reference price is US$22

or greater. The contract also has a floor of US$1.50 per mmbtu when the Brent Oil price is US$10 or lower, with a sliding-scale gas price for Brent Oil reference prices between US$10 and US$22. Changes in the price for Brent crude oil over US$22 have no impact on cash flow for Egyptian gas production.

Competition

The oil and gas industry is highly competitive. The Company believes that it is well positioned in Egypt both in terms of company-owned infrastructure, an excellent land base and significant level of reserves and activity, and can compete strongly with other companies operating there.

Environment

The Company has an ongoing program to abandon and reclaim wells and facilities in accordance with government regulations. Centurion maintains adequate insurance for environmental risks.

Conclusion Regarding Effectiveness of Disclosure Controls and Procedures

During fiscal 2005, Centurion's Chief Executive Officer, Chief Financial Officer and other key management personnel have conducted an evaluation of the effectiveness of Centurion's disclosure controls and procedures. Based on the evaluation conducted, the Chief Executive Officer and the Chief Financial Officer have concluded that the design and operation of Centurion's disclosure controls and procedures were effective as at the end of the fiscal year ended December 31, 2005 to provide reasonable assurance that all material financial information relating to Centurion and its consolidated subsidiaries are made known to the Chief Executive Officer and Chief Financial Officer by others within those entities in order to complete an analysis and review of the financial position and results of operations of Centurion for the year ended December 31, 2005.

Non-GAAP Financial Measures

Cash Flow from Operations per Share

Cash flow from operations is expressed before changes in non-cash working capital. Net earnings to cash flow from operations are reconciled in the Consolidated Statements of Cash Flows in Centurion's Consolidated Financial Statements.

For the year ended December 31		**2005**	2004	2003
Cash flow from continued operations ($000s)	A	**59,244**	31,029	10,732
Cash flow from discontinued operations ($000s)	B	**6,430**	11,036	20,063
Weighted average number of common shares outstanding basic (000s of shares)	C	**87,969**	78,052	64,240
Weighted average number of common shares outstanding dilutive (000s of shares)	D	**91,931**	82,090	66,727
Cash flow from continued operations per share (basic)	A/C	**$ 0.67**	$ 0.40	$ 0.17
Cash flow from continued operations per share (diluted)	A/D	**$ 0.64**	$ 0.38	$ 0.16
Cash flow from operations Corporate per share (basic)	(A+B)/C	**$ 0.75**	$ 0.54	$ 0.48
Cash flow from operations Corporate per share (diluted)	(A+B)/D	**$ 0.71**	$ 0.51	$ 0.46

Company Information

Centurion Energy International Inc. is a Calgary-based oil and gas exploration and development company engaged in the exploration, development and production of oil, natural gas and natural gas liquids with a focus in Egypt.

Additional information related to the Company, including the Company's Annual Information Form and Management Information Circular, are available at www.sedar.com.

Management's Report

The Management of Centurion Energy International Inc. is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgement in order that such statements reflect fairly the consolidated financial position, results of operations and cash flows of Centurion. The financial information contained elsewhere in this report has been reviewed to ensure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, Centurion has established accounting and reporting systems supported by internal controls. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

Said Arrata

Said S. Arrata
President and Chief Executive Officer

BW Swan

Barry W. Swan
Senior Vice-President and
Chief Financial Officer

March 21, 2006
Calgary, Alberta

Auditors' Report

To the Shareholders of Centurion Energy International Inc.

We have audited the consolidated balance sheets of Centurion Energy International Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
March 21, 2006
Calgary, Alberta

Consolidated Balance Sheets

As at December 31, 2005 and 2004 (in thousands of Canadian dollars)	2005	2004
Assets		
Current Assets		
Cash	**27,111**	37,416
Accounts receivable	**46,779**	19,512
Deposits and prepaids	**873**	935
Condensate inventory (note 3)	**85**	–
Assets of discontinued operations (note 2)	**-**	7,536
	74,848	65,399
Capital assets (note 4)	**162,531**	61,413
Materials and supplies (note 4)	**14,198**	–
Capital assets of discontinued operations (note 2)	**–**	52,757
Deferred financing costs (note 5)	**2,176**	1,088
	253,753	180,657
Liabilities		
Current liabilities		
Accounts payable	**45,362**	8,064
Short-term portion of lease obligation (note 6)	**560**	531
Liabilities of discontinued operations (note 6)	**–**	5,224
	45,922	13,819
Capital lease obligation (note 6)	**1,504**	2,133
Long-term debt (note 6)	**13,618**	12,023
Asset retirement obligation (note 7)	**3,743**	2,018
Liabilities of discontinued operations (note 2)	**–**	18,561
	64,787	48,554
Shareholders' Equity		
Capital stock (note 8)	**143,770**	104,754
Contributed surplus (note 10)	**10,739**	3,168
Foreign currency translation adjustment of continuing operations	**(19,968)**	(12,353)
Foreign currency translation adjustment of discontinued operations	**–**	(8,764)
Retained earnings	**54,425**	45,298
	188,966	132,103
	253,753	180,657

See accompanying notes to the Consolidated Financial Statements.

Approved by the Board of Directors

Said Arrata, Director

BW Swan

Barry Swan, Director

Consolidated Statements of Operations and Retained Earnings

For the years ended December 31, 2005 and 2004

(in thousands of Canadian dollars, except per share data)	2005	2004
Revenue		
Sales – net of royalties	**107,238**	54,270
Other income	**1,388**	526
	108,626	54,796
Expenses		
Operating	**16,780**	5,472
Depletion, depreciation and amortization (note 4)	**43,513**	18,477
General and administrative	**2,708**	3,053
Foreign prospect review (note 12)	**1,212**	684
Stock-based compensation (note 9)	**7,899**	1,683
Interest	**1,167**	992
Amortization of deferred financing costs	**950**	213
Foreign exchange loss	**90**	388
Accretion (note 7)	**229**	151
	74,548	31,113
Income before income taxes (note 11)	**34,078**	23,683
Current income taxes	**27,425**	13,178
Income for the year from continuing operations	**6,653**	10,505
Income for the year from discontinued operations (note 2)	**2,474**	2,895
Income for the year	**9,127**	13,400
Retained earnings – Beginning of year	**45,298**	31,898
Retained earnings – End of year	**54,425**	45,298
Basic earnings per share from continuing operations	**0.08**	0.13
Diluted earnings per share from continuing operations	**0.07**	0.13
Basic earnings per share	**0.10**	0.17
Diluted earnings per share	**0.10**	0.16

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004 (in thousands of Canadian dollars)	2005	2004
Cash provided by (used in)		
Operating activities		
Income for the year from continuing operations	**6,653**	10,505
Items not affecting cash		
Depletion, depreciation and amortization	**43,513**	18,477
Amortization of deferred financing costs	**950**	213
Stock-based compensation	**7,899**	1,683
Accretion	**229**	151
Funds from continuing operations	**59,244**	31,029
Funds from discontinued operations	**6,430**	11,036
	65,674	42,065
Change in continuing non-cash working capital items	**(25,805)**	(8,636)
Change in discontinued working capital items	**1,780**	(9,502)
	41,649	23,927
Investing activities		
Capital asset and materials and supplies expenditures	**(164,772)**	(31,183)
Change in continuing non-cash working capital items	**35,898**	1,510
Discontinued operations	**41,442**	(4,302)
	(87,432)	(33,975)
Financing activities		
Issue of long-term debt (net)	**1,448**	2,855
Issue of capital stock	**38,688**	24,909
Deferred financing costs	**(2,038)**	(883)
Discontinued operations	**(653)**	(1,134)
	37,445	25,747
Foreign currency translation	**(1,967)**	(44)
(Decrease) increase in cash	**(10,305)**	15,655
Cash – Beginning of year	**37,416**	21,761
Cash – End of year	**27,111**	37,416

See accompanying notes to the Consolidated Financial Statements.

1. *Summary of Accounting Policies*

a) **Consolidation**

These consolidated financial statements are prepared and reported in Canadian dollars in accordance with generally accepted accounting principles (GAAP) in Canada, which differ in some respects from international accounting standards. The differences are explained in note 19.

The consolidated financial statements include the accounts of Centurion Energy International Inc. and its subsidiaries and the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint ventures.

b) **Foreign currency translation**

The Company operates in business environments where the U.S. dollar and Tunisian Dinar are the functional currencies. The financial statements of operationally and financially independent foreign operations are translated into Canadian dollars from the functional currency using the current rate method. Under the current rate method of foreign currency translation, assets and liabilities are translated into Canadian dollars at period-end rates and income and expenses are translated into Canadian dollars at average rates in effect during the period. Monetary assets and liabilities denominated in a currency other than the functional currency are revaluated at the balance sheet date, and any gains or losses arising on the revaluation are reflected in earnings. Exchange gains and losses on translation are reflected as a separate component of shareholders' equity.

c) **Petroleum and natural gas properties and related depletion and amortization**

The Company follows the full cost method of accounting, whereby all costs incurred in exploring for and developing oil and gas reserves are capitalized. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities and general and administrative costs directly related to exploration and development activities. Capitalized costs are accumulated on a country-by-country basis and are depreciated and depleted using the unit-of-production method based upon estimated proved reserves. Natural gas reserves are converted to equivalent barrels of oil on the basis of their relative energy content (6 mcf equals 1 barrel). Costs directly associated with the acquisition and evaluation of unproved properties is initially excluded from the computation of depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs subject to depreciation and depletion.

The Company calculates a ceiling test whereby the net capitalized costs of properties cannot exceed the sum of the undiscounted cash flows expected to result from the Company's proved reserves. Cash flows are calculated based on third-party quoted forward prices and adjusted for the Company's contract prices and quality differentials. If there is impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the consolidated statement of operations. Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustments would alter the rate of depletion and amortization by more than 20 percent.

d) Office furniture and equipment and related amortization

The Company provides for amortization on office furniture and equipment using the straight-line method at annual rates of 20-30 percent.

e) Joint ventures

A portion of the Company's exploration and operating activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

f) Asset retirement obligation

The fair value of estimated asset retirement obligations is recognized when identified and a reasonable estimate of fair value can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites. These obligations also include items for which the Company has made promissory estoppels. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the retirement obligation and the related asset retirement cost. Asset retirement costs for natural gas and crude oil are amortized using the unit-of-production method. Amortization of asset retirement costs are included in depletion, depreciation and amortization. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in earnings.

Actual expenditures incurred are charged against the accumulated obligation.

g) Revenue recognition

Revenues from the sale of oil and gas are recorded when title passes to the customer.

h) Earnings per share

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the year. Diluted per share information assumes exercise of in-the-money options and warrants at the beginning of the year or date of issue, if later. It is assumed that proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

i) Stock-based compensation

The Company has an incentive stock option plan which is described in note 9. Compensation expense based on the fair value of the employee stock options is being recognized over the vesting period of the related stock options and charged to contributed surplus. Stock options and warrants issued to non-employees are recorded at their fair market value at date of issuance.

j) Financial instruments

Canadian accounting standards require the disclosure of the fair value of financial assets and liabilities. The fair value of the Company's current financial assets and liabilities is considered to approximate book value due to their current nature, as does the long-term debt, which is at a floating rate.

k) Measurement uncertainty

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

l) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantially enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs. In Egypt, the government receives production in lieu of income tax. The Company records this production as current income tax expense.

m) Comparative amounts

Certain comparative amounts have been reclassified to conform with the presentation format adopted in the current year.

Discontinued Operations and Assets Held for Sale

On April 26, 2005, the Company closed a transaction to sell the majority of its ongoing operations in Tunisia. The purchaser agreed to purchase the Company's 100 percent owned subsidiaries that operate in Tunisia which own a 31.4 percent working interest in the Ezzaouia concession and the Ezzaouia oilfield; a 73.8 percent working interest in the El Biban concession and the El Biban oilfield; an 80 percent working interest in the Robanna concession and the Robanna oilfield; and a 75 percent working interest in the Al Manzah concession and the Al Manzah oilfield. Also included in the purchase is the 50 percent share ownership in the SEEB power plant. Balances related to the sold operations have been classified as assets held for sale and are reflected as discontinued operations. This disposal comprised all of the Company's Tunisian assets except its interest in the Mellita Permit and a reduced interest in the Ezzaouia and El Biban Triassic prospects.

The sale resulted in net proceeds of $43.7 million plus working capital adjustments, after the deduction of transaction costs. The estimated pre-tax loss on sale as at December 31, 2005 is $683 subject to final purchase price adjustments and transaction costs.

Selected financial information for the operations included in discontinued operations is reported below:

($000s)	**January to April 26, 2005**	January to December 31 2004
Revenues	**8,979**	17,897
Income from discontinued operations before taxes	**5,774**	6,536
Income taxes	**2,617**	3,641
Loss on disposal of discontinued operations	**683**	-
Income from discontinued operations	**2,474**	2,895

The major classes of assets and liabilities of discontinued operations are as follows (no assets or liabilities from the discontinued operations remain at December 31, 2005):

($000s)	2004
Current assets	7,536
Capital assets	52,757
	60,293
Current liabilities	5,224
Limited recourse long-term debt (note 6)	14,395
Deferred credit	–
Asset retirement obligation	2,103
Future income tax liability (note 11)	2,063
	18,561
Foreign currency translation adjustment	(8,764)
Net assets of discontinued operations	45,272

3. *Condensate Inventory*

The inventory of $85 as at December 31, 2005 (2004 – $nil) represents approximately 14,485 barrels (2004 – nil) of produced condensate that were not sold at year end. The inventory value is calculated using the related production and depletion costs.

4. *Capital Assets*

($000s)			2005
	Cost	**Accumulated amortization**	**Net**
Petroleum and natural gas properties and production equipment	**230,417**	**69,077**	**161,340**
Office equipment	**3,687**	**2,496**	**1,191**
	234,104	**71,573**	**162,531**

($000s)			2004
	Cost	Accumulated amortization	Net
Petroleum and natural gas properties and production equipment	88,643	28,664	59,979
Office equipment	3,096	1,662	1,434
	91,739	30,326	61,413

As at December 31, 2005, petroleum and natural gas properties include $20,914 (2004 – $7,070) in respect of unproved properties in Egypt, Nigeria and Tunisia, which have been excluded from the depletion calculations.

Head office general and administrative costs capitalized during 2005 were $4,165 (2004 – $1,613). General and administrative costs capitalized to discontinued operations in 2004 were $919.

As at December 31, 2005, $14,198 (2004 – $nil) of materials and supplies have been included in long-term assets. These materials and supplies represent casing, tubulars and wellheads which will be utilized in the planned drilling program and included in capital assets when used. Materials and supplies are recorded at the lower of market and average cost.

The prices used in the ceiling test evaluation of the Company's crude oil and natural gas reserves at December 31, 2005 were:

	Crude oil US$/barrel	Natural gas US$/mscf	Condensate US$/barrel
2006	39.65	2.75	54.37
2007	38.98	2.65	53.45
2008	36.96	2.65	50.69
2009	33.60	2.65	46.08
2010	32.26	2.66	44.24
Average until 2020	31.58	2.71	43.80

During the fourth quarter, the Company completed the drilling of an offshore exploration well in Tunisia. The well was found to be unsuccessful and as such, the Company has reviewed the carrying value of its Tunisian assets for impairment. As a result of this assessment, the Company has written off the net book value of the Tunisian assets ($14.5 million) and recorded the expense as depletion in the statement of operations.

5. *Deferred Financing Costs*

Deferred financing costs amounted to $2,176 (2004 – $1,088) at December 31, 2005. These costs include $2,038 of legal and financing fees relating to the amended and restated Standard Bank plc (Standard Bank) credit facility (see note 6). Deferred financing costs are being amortized over the term of the debt financing to which they relate. As a result of the amendment of the credit facility the previously deferred costs, amounting to $456, related to the original facility were written off.

Also included are $138 relating to the capital lease arrangement with Northstar Trade Finance Ltd. (see note 6). These costs are being amortized over the life of the lease.

6. *Long-Term Debt*

($000s)	Rate	**2005**	2004
Credit facility (US$11.7 million)	LIBOR + 3.0%	**13,618**	12,023
Capital lease obligation	7.5%	**2,064**	2,664
		15,682	14,687
Amount due within one year		**560**	531
		15,122	14,156

Principal repayments due in the next five years are as follows:

($000s)	
2006	560
2007	609
2008	662
2009	13,851
2010	–

Credit facility

On December 22, 2005, the Company closed on the amendment and restatement of its previous credit facility with the Standard Bank. This facility has a credit limit of US$150 million, with US$100 million available immediately and an option of an additional US$50 million subject to certain bank restrictions. This debt facility is secured by an assignment of all the shares of the operating legal entities.

As at December 31, 2005, the credit facility had drawings of approximately US$11.7 million. This debt bears interest at LIBOR plus a margin based on outstanding borrowings; the margin is currently 3.0 percent. The term of the new facility is 48 months and no payments are due until that time, subject to financial covenants. Financial covenants include a current ratio in excess of 1.0, an asset coverage ratio in excess of 2.0 and debt service coverage ratio of 1.25. As at December 31, 2005, the Company is in compliance with all financial covenants.

Capital lease obligation

The capital lease obligation of $2,064 (2004 – $2,644) represents a capital lease for compression facilities related to the Company's gas fields in Egypt. This obligation is being repaid over a five-year term commencing May 2004 with a blended interest and principal payment of US$51 thousand per month. An amount of $560 (2004 – $531) has been included as a current portion of long-term debt. At the inception of the lease, $3,184 was included in capital assets and is being depleted under the unit-of-production method. The lease includes a bargain purchase option at the end of the lease term. Interest expense of $206 (2004 – $175) has been recorded relating to this lease.

Limited recourse long-term debt – discontinued operations

The Company previously entered into a financing arrangement related to its Tunisian operations. All such arrangements were included in the sale of the Tunisian operations as described in note 2. The financing bears interest at LIBOR plus two percent for a 10-year term. Centurion's share of the project financing at December 31, 2004 was $12,769. Also included in the limited recourse SEEB debt is an amount of $3,012 (US$2,500) in respect of the Company's share of additional project financing provided by Caterpillar Power Ventures Inc. to complete the SEEB project. This additional financing bears interest at 13 percent, however there are no fixed repayment terms.

7. *Asset Retirement Obligation*

($000s)	
Asset retirement obligation at December 31, 2003	1,679
Additions	310
Foreign exchange	(122)
Accretion expense	151
Asset retirement obligation at December 31, 2004	2,018
Additions	1,655
Foreign exchange	(159)
Accretion expense	229
Asset retirement obligation at December 31, 2005	3,743

The total undiscounted amount of estimated cash flows required to settle the obligations is $7,692 (2004 – $3,255), which has been discounted using a credit adjusted risk-free rate of 9 percent (2004 – 9 percent). These obligations are expected to be paid in 2010 through 2015.

To date, Centurion has not retired any wells or facilities from its continuing operations, nor has it segregated or restricted any funds to fulfill these future liabilities and obligations. Such future obligations will be funded from future cash flows, including future salvage value on existing capital equipment.

8. *Capital Stock*

Authorized

Unlimited number of common shares

Unlimited number of preferred shares (none outstanding)

Issued and outstanding (common shares)

	Number of shares	Stated value $000s
Balance – December 31, 2003	74,351,127	79,654
Issued – Private placement (net of issue costs and taxes)	7,575,757	23,423
Issued on exercise of warrants	200,000	190
Issued on exercise of options (including allocation of contributed surplus)	1,929,101	1,487
Balance at December 31, 2004	84,055,985	104,754
Issued on Public Offering (net of issue costs and taxes)	2,975,000	37,009
Issued on exercise of options (including allocation of contributed surplus)	1,546,200	2,007
Balance at December 31, 2005	88,577,185	143,770

On August 25, 2004, the Company completed a $20 million underwritten financing consisting of the placement of 6,060,606 common shares at $3.30 per share. Additionally, 1,515,151 new common shares were placed with U.K. investors at a price of $3.30 each, resulting in gross proceeds to the Company of approximately $5 million. Net proceeds of the public offering were $23.4 million.

On January 27, 2005 the Company successfully completed a short-form prospectus offering consisting of 2,975,000 common shares at $13.25 per share. Net proceeds of the public offering were $37.0 million.

In May 2004, 200,000 warrants were exercised and converted to common shares of the Company at $0.60 per share. These warrants were issued in connection with the 2002 Standard Bank credit facility.

During 2005, 1,546,200 options were exercised by employees of the Company at an average exercise price of $1.09. In 2004, 1,929,101 options were exercised by employees of the Company at an average exercise price of $0.71.

Incentive Share Option Plan

The Company has a share option plan (the "Plan") for directors, officers and employees of the Company and its subsidiaries. The Plan provides that the aggregate number of common shares which may be reserved for issuance shall not exceed 13,000,000 common shares and that the aggregate number of common shares which may be reserved for issuance to any one individual shall not exceed 5 percent of the outstanding shares. The Plan is administered by the Board of Directors. The exercise price of the common shares covered by the issued stock options is determined by the directors but cannot be less than the trading price the day before the options are granted. The exercise period of the options is fixed by the Board of Directors and is not to exceed the maximum period permitted by the Toronto Stock Exchange. Vesting rights are determined at the discretion of the Board of Directors.

($000s)	**2005**		2004	
	Share options	**Weighted-average exercise price**	Share options	Weighted-average exercise price
Outstanding – Beginning of year	**6,014,233**	**1.69**	6,098,334	0.80
Granted	**2,584,500**	**12.74**	1,845,000	3.62
Exercised	**(1,546,200)**	**1.09**	(1,929,101)	0.71
Outstanding – End of year	**7,052,533**	**5.87**	6,014,233	1.69
Options exercisable – End of year	**5,044,700**	**3.40**	5,334,233	1.47

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options outstanding		**Options exercisable**	
Exercise price	Options outstanding	Weighted average remaining contractual life in years	Options exercisable	Weighted average remaining contractual life in years
0.46	225,000	0.8	225,000	0.8
0.60	1,742,000	1.6	1,742,000	1.6
1.63	903,833	2.7	903,833	2.7
3.05	87,000	3.3	43,667	3.3
3.40	1,435,200	3.7	1,260,200	3.7
9.47	75,000	3.9	50,000	3.9
10.39	15,000	5.0	–	–
10.88	50,000	4.9	–	–
11.25	25,000	4.6	–	–
11.95	1,429,500	4.8	800,000	4.8
12.25	70,000	4.8	–	–
13.70	20,000	4.5	–	–
13.75	825,000	4.1	–	–
14.13	75,000	4.1	–	–
17.80	75,000	4.2	–	–
	7,052,533		5,024,700	

The Company continues to utilize the fair value method of accounting for employee stock options. An expense has been recorded in the amount of $7,899 in relation to options granted to employees in 2005 (2004 – $1,683). The average estimated fair value of options issued in 2005 was $4.99 per option (2004 – $1.10), which is being amortized over the vesting period, has been determined using a modified Black-Scholes option pricing model with the following assumptions:

	2005	2004
Average risk free rate	**3.46%**	4.03%
Average expected life	**3 years**	3 years
Average estimated volatility on the market price of common shares	**55%**	40%
Average dividend rate	**nil**	nil

No expense has been recorded for options granted prior to January 1, 2003. Had compensation expense been recognized based on the fair value method for options granted prior to January 1, 2003, an additional $173 would have been recorded as stock option expense in 2004, with no expense related to 2005.

10. Contributed Surplus

($000s)	
Balance – December 31, 2003	1,676
Stock-based compensation	1,683
Stock-based compensation associated with exercised options and share purchase warrants	(191)
Balance – December 31, 2004	3,168
Stock-based compensation	7,899
Stock-based compensation associated with exercised options	(328)
Balance – December 31, 2005	10,739

11. Income Taxes

The difference between the income tax provision recorded and the provision obtained by applying the combined federal and provincial statutory rates is as follows:

($000s)	2005	2004
Income before income taxes from continuing operations	**34,078**	23,683
Canadian corporate tax rate	**37.7%**	39.1%
Calculated income tax provision	**12,847**	9,260
Effect on taxes from		
Foreign tax rate differential	**1,977**	932
Expenses incurred with no recognized tax benefit	**12,601**	2,986
	27,425	13,178

The Company has Canadian loss carryforwards of approximately $18 million as at December 31, 2005. A future tax asset of $7 million, net of a valuation of $7 million has been recorded relating to these losses.

The future tax liability of $2,063 at December 31, 2004 included in discontinued operations (see note 2) relates to the difference in the unclaimed tax deductible costs of capital assets in Tunisia and the related net book carrying value.

12. Foreign Prospect Review

Costs associated with the evaluation of oil and gas opportunities outside of Egypt are expensed as incurred. Should the Company successfully obtain new exploration or development permits in countries of business other than Egypt, all future costs associated with developing or exploring for oil and gas reserves in these new countries will be accounted for under the full cost method of accounting (note 1(c)). The foreign prospect review costs of $1,212 in 2005 (2004 – $684) represent travel and geological evaluation costs related to opportunities outside of our core areas of operations in Egypt and Tunisia.

13. Segmented Information

The Company has defined its continuing operations as oil and gas operations. The majority of the Company's oil and gas operations are located in Egypt. Certain exploration activities continue in Tunisia and other locations in Africa. During the second quarter of 2005 Centurion and the Hercules Petroleum Limited consortium were awarded a 10 percent equity interest in Block 4 of the Nigeria-Sao Tome Joint Development Zone. Centurion will hold a minimum 75 percent of the consortium's award, equating to a minimum 7.5 percent equity interest in JDZ Block 4 (See note 17).

Operations that have been discontinued are disclosed in note 2.

($000s)					**2005**
	Egypt	**Tunisia**	**Nigeria/ Sao Tome (JDZ)**	**Canada and Other**	**Total**
Revenue	**107,238**	–	–	–	**107,238**
Other income	**130**	–	–	**1,258**	**1,388**
Interest expense	–	—	–	**1,167**	**1,167**
Depletion, depreciation and amortization	**28,652**	**14,538**	–	**323**	**43,513**
Income tax expense	**27,425**	-	–	–	**27,425**
Net income (loss)	**44,249**	**(14,538)**	–	**(23,058)**	**6,653**
Capital assets	**160,913**	–	**941**	**677**	**162,531**
Materials and supplies inventory	**14,198**	–	–	–	**14,198**
Capital asset and material and supplies expenditures	**156,185**	**8,426**	–	**161**	**164,772**

($000s)					2004
	Egypt	Tunisia	Nigeria/ Sao Tome (JDZ)	Canada and Other	Total
Revenue	54,270	–	–	–	54,270
Other income	15	–	–	511	526
Interest expense	–	–	–	992	992
Depletion, depreciation and amortization	18,209	–	–	268	18,477
Income tax expense	13,178	–	–	–	13,178
Net income (loss)	26,709	—	–	(13,309)	13,400
Capital assets	52,489	7,070	1,021	833	61,413
Capital asset and material and supplies expenditures	30,811	–	–	372	31,183

14. Supplemental Cash Flow Information

Cash taxes and interest

($000s)	2005	2004
Cash taxes paid	**27,425**	13,178
Cash interest paid	**1,167**	992

15. Earnings per Share

Per share basic amounts are calculated using the weighted average common shares outstanding during the year. Diluted per share amounts are calculated assuming all in the money securities are exercised with the resultant proceeds realized on the exercise of these securities being used to repurchase the Company's common shares at the average share price during the year.

	2005	2004
Weighted average number of common shares (thousands)	**87,969**	78,052
Dilutive securities – warrants and options (thousands)	**3,962**	4,038
	91,931	82,090

16. Contingencies and Commitments

The Company is involved in various legal claims associated with the normal course of operations. The Company believes it has made adequate provision for such legal claims.

On June 30, 2005, Centurion awarded Presson-Enerflex a contract for the supply, delivery and project management of the El Wastani phase III stand alone gas plant in Egypt. This contract represents a US$32.3 million commitment which will be due and payable at project milestones throughout 2006 and is included in Centurion's 2005/2006 capital budget. All amounts under the terms of the contract will be incurred in fiscal 2006.

Centurion has contracted four drilling rigs in connection with the 2006 budgeted drilling program in Egypt. In the event that Centurion does not proceed with planned drilling for these rigs, the Company would be obligated to pay the rig operators a variable rate based on days not utilized under the contracts. The maximum commitment at December 31, 2005 related to these contracts is approximately $10.6 million.

In May 2004, Centurion was awarded the West El Manzala and West El Qantara blocks, in the Nile Delta of Egypt. Centurion (75 percent working interest) and its partner have committed to spend US$18 million on the blocks during the first phase of exploration. As at December 31, 2005, Centurion has spent US$9.8 million of their committed US$13.5 million obligation. The remainder will be spent during the 2006 drilling and seismic programs.

17. Subsequent Event

On February 22, 2006, the Company entered into a conditional purchase and sales agreement to acquire a private U.S. corporation. The acquisition includes operated properties in Egypt's Nile Delta region and in Texas, U.S. The acquisition is expected to close in April 2006. Centurion is buying all of the shares of the private company for cash consideration of US$225 million plus working capital and inventory less debt.

On March 14, 2006, the Company signed a Production Sharing Contract (PSC) and formal granting by the Joint Development Zone of its 10 percent (gross) equity interest, 7.5 percent (net) in Block 4 of the Nigeria/Sao Tome. Under the PSC the Company is obligated to pay US$6.75 million, being its share of the total signature bonus. The Company will also be obligated for its share in the minimum expenditure of US$53 million for the block.

On March 15, 2006, the Company entered into an agreement with CTIP Oil and Gas Limited to acquire a 25 percent participating interest in the West El Manzala and West El Qantara concessions. Following the closing of this acquisition, the Company will hold a 100 percent participating interest in each of these concessions.

Under the terms of the acquisition agreement, the Company has agreed to pay US$20 million and to issue 1,000,000 common shares at a price of CAD$12.10 per share for the concession interests. The Company has agreed to pay additional payments that could total up to a further US$25 million as and when specific discovery volumes and development objectives are met.

Centurion has also granted a three percent net profits interest to CTIP on future production from the Concessions. Closing of the transaction, which is subject to Egyptian Government approval, is expected to occur within the next thirty to sixty days.

On March 20, 2006, the Company signed an agreement with Shell Egypt West Manzala GmbH and Shell Egypt West Qantara GmbH (together "Shell"). The agreement provides for a Farm-in and LNG Cooperation Agreement, through which Shell will acquire a 50 percent interest in the West El Manzala and West El Qantara concessions. The farm-out to Shell is subject to certain conditions, including obtaining the government approvals for a transfer that is required under the Concessions agreement.

Under the Shell agreement, Shell will make an initial payment to the Company of US$15 million and will pay 50 percent of all future exploration and development costs for as long as they remain a concession owner. If Shell continues as a concession owner after the drilling of an initial five well exploration program, an additional payment of US$20 million is payable by Shell to the Company. If Shell elects not to continue, the interest of Shell will revert back to Centurion. The first well in the five well exploration program was spudded on February 7, 2006.

Shell has agreed to pay additional premiums that could total up to a further US$225 million if and when specific discovery volumes and development objectives are met.

Financial Instruments

Balance sheet financial instruments

Centurion's financial instruments presented on the Consolidated Balance Sheet consist of cash, accounts receivable, accounts payable and long-term debt. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in current market transactions. Based on these assessments, the carrying value of identified financial instruments approximates fair value.

Concentration of credit risk and economic dependence

Currently, all production of the Company is sold to one customer, the Egyptian Government. The Company is exposed to credit risk in the event that the Egyptian Government is unable to meet its financial obligations.

19. Summary of Differences between Canadian GAAP and International Accounting Standards

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP), which differ in certain respects from those in International Accounting Standards ("IAS"). Set out below is a brief description of the difference between Canadian GAAP and IAS which would be significantly different from the amounts shown in the Canadian GAAP financial statements.

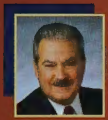
Full cost accounting

The Company has adopted the full cost accounting method in respect of the treatment of its oil and gas capital assets. This method of accounting for oil and gas assets is an acceptable treatment under Canadian GAAP. However, the treatment is not specifically addressed under IAS.

In the event that the Company was required to restate its financial statements using the IAS method of accounting for oil and gas capital assets the impact would be to increase the volatility in the Company's profit during the period as certain wells drilled during the period would have been required to be written off to the statement of operations rather than capitalized. In addition, certain overhead costs which were also capitalized at that time would similarly have to have been written off in the year those costs were incurred.

The exact impact on the Company's accounts is dependent upon several factors, including whether wells drilled are a delineation of an existing field which can be capitalized or exploratory in nature. The latter are required to be written off if those wells are dry or it is not commercially viable to extract the hydrocarbons from the well. In addition, as discussed above, any overheads capitalized relating to those wells will be required to be written off. The additional costs incurred during the period would to some extent be offset by a reduction in the level of depletion charged.

Board of Directors



Mr. Said S. Arrata

President and Chief Executive Officer
Centurion Energy International Inc.

Mr. Said Arrata, P.Eng., serves as the President and Chief Executive Officer of Centurion Energy International Inc. and is a member of the Board of Directors of the corporation. He holds a B.Sc. degree in Petroleum Engineering and has accumulated several post-graduate accreditations at various universities as well as numerous oil and gas industry technical and management courses. During more than 36 years of experience in the oil and gas industry in design, project management, production and drilling engineering, Mr. Arrata has held management positions with major oil companies in Canada and overseas. He was co-founder of a major contracting engineering firm operating in Canada and internationally for nearly two decades. He holds a directorship position in three other companies and is an active member of several professional engineering and industry associations as well a Board member of United Way and the Calgary Philharmonic.

Barry W. Swan

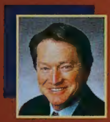
Senior Vice-President and
Chief Financial Officer

Mr. Barry Swan serves as Senior Vice President and Chief Financial Officer of Centurion Energy International Inc., and is a member of the Board of Directors of the corporation. Mr. Swan earned his designation as a chartered accountant in 1971. During his professional and entrepreneurial career, spanning 35 years, he has held key positions with energy companies in North America with operations in the North Sea, Argentina, Bolivia, Peru, Indonesia, Yemen, Canada, United States, Tunisia, and Egypt. Mr. Swan was one of the founders of the Sunlite Oil Company and Boss Energy Ltd., both of which were merged into Canadian Leader Energy Inc. and eventually merged to form Centurion Energy. Mr. Swan currently oversees all of Centurion's accounting, reporting and financing activities and is a member of the Institute of Chartered Accountants of Alberta.

Robert C. Cook

Vice President,
ARC Financial Corporation

Mr. Cook has been with ARC Financial Corp. since 2000 and previously spent 12 years as a reservoir engineer and field development team leader for a multi-national oil company with assignments in Canada, Europe, Africa and the Middle East. He is a member of ARC's Exploration and Production group and his primary focus is on the development and completion of new investment opportunities. He also works closely with portfolio companies, primarily with respect to progress monitoring and corporate strategy. He is a director of Centurion Energy International Inc. (TSE – CUX), Find Energy Ltd. (TSE – FE), and Temple Energy Inc. (private).



Derrick R. Armstrong

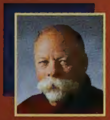
Partner,
Borden Ladner Gervais LLP

Mr. Armstrong is a partner with Borden Ladner Gervais LLP, and is Regional Head of the firm's Securities and Capital Markets Group in Calgary and a member of its National Securities and Capital Markets Group. He has practiced securities and corporate law in Calgary since 1980. Mr. Armstrong has served on the Legal Advisory Committee to the Alberta Securities Commission and the TSX Venture Exchange and is currently a member of the Advisory Board of the TSX Venture Exchange, and serves as chairman of the Exchange's Alberta local policy group.

Gary V. Awad

Chairman and Managing Principal,
ThreeG Capital

Mr. Awad is Chairman and Managing Principal of ThreeG Capital, a privately-held equity investment and venture capital company. He is also Advisor to Delta Oil Company, a privately-owned Saudi-based international petroleum company. Previously, Mr. Awad completed a 30-year career with Unocal Corporation as Executive Vice President of Unocal International Energy Ventures, Ltd., which focused on securing energy projects outside North America. Mr. Awad is a director of MetaMatrix Corporation, a B2B infrastructure software company, EHD Technology Group. He is also a member of the Pasadena Angels, a venture capital organization which invests in early stage companies in the Southern California area, the National Association of Corporate Directors (NACD), and the Board of Governors of the Reed Institute.



Michael J. Miller

Chairman, Safety Boss
International Ltd.

Mr. Miller has 33 years of experience as supervisor on more than 400 well control and firefighting operations, onshore and offshore throughout the world. Prior to rejoining Safety Boss in 1979, Mr. Miller supervised drilling and completion operations in several different countries. Mr. Miller acted as the Safety Boss Project Manager for the Kuwait Fires Project where the company successfully capped 180 wells in 200 days. Mr. Miller was awarded the Emir's Star of Kuwait. He was appointed as a member of the Order of Canada in 1994 and he received an honorary doctorate from Athabasca University in 1994. Mr. Miller was inducted into the Canadian Petroleum Hall of Fame in 2002.

Corporate Information

Officers and Key Personnel

Said S. Arrata, P.Eng.
President and Chief Executive Officer

Barry W. Swan, C.A.
Senior Vice-President and
Chief Financial Officer

Tony Anton, P.Eng.
Senior Vice-President and
Chief Operating Officer

Mike N. Zayat
Vice-President,
Exploration and Business Development

Paul McDougall, C.A.
Treasurer

Dr. Hany Elsharkawi, P.Eng.
President and General Manager,
Centurion Petroleum, Egypt

Directors

Said S. Arrata
President and Chief Executive Officer
Centurion Energy International Inc

Barry W. Swan
Senior Vice-President and
Chief Financial Officer

Robert C. Cook
Vice President,
ARC Financial Corporation

Derrick R. Armstrong
Partner,
Borden Ladner Gervais LLP

Gary V. Awad
Chairman and Managing Principal,
ThreeG Capital

Michael J. Miller
Chairman,
Safety Boss International Ltd.

Independent Auditors

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Bank of Nova Scotia
P.O. Box 2540 Station M
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Above: Sue Samways and Jaqueline Markel

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Calgary, Alberta, Canada T2P 4H2

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Valiant Corporate Trust Company
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Calgary, Alberta, Canada T2P 1T1

Reserve Engineers
Ryder Scott Company
Petroleum Consultants
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Calgary, Alberta, Canada T2P 3S8

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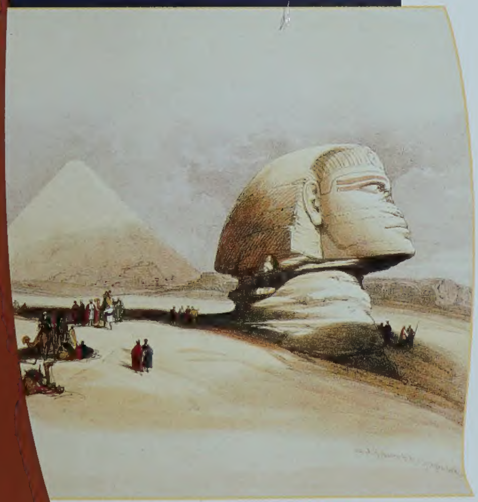
Calgary, Alberta, Canada T2P 2V7
Telephone: (403) 263-6002
Fax: (403) 263-5998
Website: www.centurionenergy.com

Subsidiary Companies
Centurion Petroleum Corporation
El Safa Office Towers
Lot No. 42, 6th district
Zahraa El Maadi subdivision, Maadi, Cairo, Egypt

Terms and Abbreviations

AIT	after income taxes
bcf	billion cubic feet
boe	barrels of oil equivalent (1 boe = 6 mscf)
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
bpd	barrels per day
Centurion	Centurion Energy International Inc.
mboe	thousand barrels of oil equivalent
mbtu	thousand standard British thermal units
mscf	thousand standard cubic feet
mm	millions
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmbtu	millions of British thermal units
mmscf	million standard cubic feet
mmscf per day	million standard cubic feet per day
mmstb	millions of stock tank barrels
NPVAIT	net present value after income tax
ppm	parts per million
tcf	trillion cubic feet
WTI	West Texas Intermediate
2-D	two-dimensional seismic survey
3-D	three-dimensional seismic survey



Above: The Sphinx

About the Cover Artist

Born in Scotland in 1796, the self-taught David Roberts soon established himself as one of the most gifted landscape artists of his time. Between 1824 and 1833 the artist made many journeys in Europe which he crowned with a long tour of Spain. Having achieved a gratifying celebrity with his landscapes of the Iberian Peninsula, in 1838 Roberts decided to set out on a long and adventurous exploration of Egypt and the Holy Land, in the course of which he produced a large number of watercolors and oils. On his return to London, between 1842 and 1849 he published six large volumes of engravings produced by Louis Haghe from the drawings made during his trip. *Egypt and Nubia (1846-1849)* – from which one of the plates reproduced on the cover of this Annual Report is taken – is one of the artist's most impressive works of the monuments of ancient Egypt.

Designed and produced by Merlin Edge Inc.
www.merlinedge.com
Printed in Canada

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